

THE  
PROFITS OF WAR  
THROUGH THE AGES

BY  
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## AUTHOR'S PREFACE

### to the English Translation

THE problem of war profits is one of the most discussed questions of the day. Indeed, at a time when the possibility of another war is generally admitted, and when countries are accordingly spending huge sums on rearmament, the gravity of the question can hardly be denied. Are private profits from war to be considered just? Are they to be tolerated on grounds of expediency? Or, on the other hand, are they to be ruthlessly suppressed as themselves providing one of the many factors which lead countries on to war?

In all the great democratic countries governments have emphatically proclaimed their hostility to war profits. In America and France as well as in England legal or parliamentary commissions have been set up to study the question in one aspect or another. Sometimes it is to determine the profits made by individuals during the last war, sometimes to determine those made by the armament firms in peace-time, sometimes to consider the expediency of nationalizing the whole armament industry. In some countries, particularly in the United States and France, laws of the utmost importance have been passed either to restrict the trade in war supplies or the profits derived from it.

Although this question has aroused widespread interest, no general survey of the subject has, so far as I know, yet been undertaken. The present volume has been written to fulfil the need for one. Ranging through all historical times and over all countries, its aim is to present sufficient material to enable the

general reader to form an objective opinion. Naturally with so immense a field the material offered can be no more than a selection. For the more remote periods of history only a few typical examples are given, the bulk of the book being devoted to recent times.

Ever since there have been wars there have been profits derived from them. Up to the opening of the nineteenth century the most important were those made by great military leaders, though wars also offered opportunities for financial and trading profits which were often very considerable. Then, during the nineteenth century the soldier gradually fell into the background, his place being taken by the manufacturer of arms. In the minds of most people the latter still occupies the centre of the picture. But, important though he undoubtedly is, I am inclined to think that the attention bestowed on him is sometimes exaggerated, too little being given to other forms of war profits. During the last war vast fortunes were made in trading in all sorts of war supplies, and also in speculation, and I have tried to show that the more indirect forms of war profits are of increasing importance.

Considering all the variations and complexities of war profits, it must not be expected that a historical movement will be uniform in its advance. Nevertheless, the view is here set out that a very definite tendency has for a considerable time existed according to which war profits become more and more indirect. As a result of economic and technical developments as well as of the change in moral outlook on the subject of war, direct profits from war are becoming increasingly difficult to realize.

R. L.

Paris, July 1936.

## CHAPTER I THE GENERALS

### *Julius Caesar*

THEY started, nearly all of them, with nothing: country gentlemen, impecunious pages at Court, robust colonial soldiers, or revolutionary captains. Some had to make their way by means of amorous adventures or wealthy marriages till they reached the point where their talent won recognition. The great model they all followed was Julius Caesar, and he was their model in this particular too: he started with nothing. With less than nothing, one might say, for Plutarch has been indiscreet enough to let us know that the debts accumulated by the young Caesar amounted to 830 talents—about £400,000 in modern English money<sup>1</sup>—when for the first time, he was given a high appointment, a governorship in Spain.

So long as he was at home, distributing with both hands the money he borrowed to further his political ambitions, his creditors felt more or less at ease. For power brought wealth. That was a rule in Rome against which no one dared to protest except an obstinate few, like Cato of Utica. But away in a

<sup>1</sup> Throughout this book historical sums of money when converted into modern currency have been given in depreciated pounds. The author puts them into modern gold francs, and in translating his figures I have allowed 75 francs to the pound.—Tr.

restless colony, if something should happen to Caesar, the money would be lost for ever. That was certain.

So when all was ready for the departure of the new Governor, his creditors started to make a row. They presented his I O U's, due for payment long ago, and, as Caesar was still incapable of paying them, they abandoned threats and seized his baggage.

It was a painful scene. At the very moment when the Governor was getting ready to leave the capital to take up his post, his whole personal outfit was seized. This was something that had never happened before, not even in the most troublous times of the Republic. But civil law did not bend before the most august dignitaries of Rome, and Caesar, at the outset of his career, dared not risk the use of force; the matter had to be settled by legal means. To avoid a public scandal, Caesar's patron, Crassus, the multi-millionaire, agreed to settle the most pressing claims and to give a guarantee to cover the rest. The money-lenders resigned themselves to this arrangement, and without further bother the young Governor could now depart with all his things.

This incident strengthened his resolution to put an end to the precarious state of his finances, and, in the years which followed, the wealth of Spain allowed him to carry out his intention to the full. Straight away, he proceeded to conquer new territories, subjecting the regions which now constitute Galicia and Portugal. His governorship in Spain became a régime of exploitation of the first order. It is true that this treasure acquired in the West, could hardly compare with that acquired by Lucullus and Pompey

during their expeditions in the East. Nevertheless, the business men of Rome were overjoyed by this sudden and unexpected influx of wealth, and showed the greatest enthusiasm for further colonial enterprise.

Nor had Caesar's soldiers anything to grumble about, for they got a good share of the spoils. And there was plenty over for the general. Caesar, though less grasping than many other Roman captains, found himself now liberated from all financial cares, and his old creditors were happy too. His first great military exploit not only brought him fame, but made him a rich man, as a general was expected to be.

The Spanish expedition was, however, only a prologue. The Gallic wars reaped a far richer harvest. In those countries where there was not much to take, as in Britain or in the German forests, Caesar did not stay long. But with all the more rigour did he set out to subject and exploit the flourishing land of Gaul. The tribes between the Rhône and the Rhine had to pay an annual tribute of 40 million sersterces, equivalent to some £800,000. Apart from the capture of strongholds, objects of gold and silver in surprising quantity were continually falling into the hands of the Romans.

It is not known how much he kept for himself, but Caesar, with that largeness which characterized him all his life, was able to scatter money on all sides. Paulus, the Consul, received 1500 talents, which enabled him to build a great basilica. Curio, the people's Tribune, who was heavily in debt, was saved from the hands of his creditors by a gift of 250 talents. The men whom Pompey had lent to

Caesar for his last campaign in Gaul, were given about 500 talents as a parting gift. From these few known figures it may be deduced that during ten years of warfare Caesar's fortune grew from —830 to +2250 talents, that is to say by more than 3000 talents, equivalent to about £1,300,000, and this at a time when Crassus, with a fortune of 7100 talents, was considered the richest man in Rome.

The manner in which Julius Caesar straightened out his affairs was in no way peculiar to him. In the military history of the world, from its beginnings right down to the nineteenth century, it was the common thing for the commander of an army, at any rate the victorious one, to make a personal profit from the war. Certainly, in the case of defeat, the generals of bygone times ran a greater risk than those of to-day. Their persons were almost as exposed to danger as those of the common soldiers. Moreover, when beaten, they might expect exile and the confiscation of all their property, a fate which as a rule only threatens monarchs in the twentieth century.

The pecuniary opportunities and risks of military chiefs vary in their legal forms, but hardly vary in their substance. In antiquity, particularly in Rome, they knew already all the methods which were to serve later to "gild" military glory. To the conqueror, not only the palm and the laurel, but also material benefits. If in the course of the war he had not filled his pockets with gold, silver and precious stones, it was his acknowledged right on his return to receive a considerable part of the booty. And besides these gifts of moveable property, he was given

the ownership or the use of land. Generals who met with exceptional success were rewarded by entire provinces ; those in subordinate command received proportionally less, but often they, too, acquired a fortune sufficient to enable them to retire still young to lead a life of comfort and security. Lucrative civil posts, sinecures in government departments or in the economic sphere—of which some were comparable to the directorships occupied to-day by retired generals and admirals—these complete the list of benefits accruing to military commanders.

### *The Feudal Barons*

The more primitive nature of economic life during the Middle Ages deprived war profits of much of their diversity. On the other hand, the notion of a warrior caste tended to become more and more closely linked with that of landed property. The cause of this was twofold.

Whoever received a fief from his overlord owed him military service, particularly on horse. The vassal stood the cost of his equipment and generally had to provide provisions for three months. This connection between the concession of land and military service lay at the base of the system of fiefs which dominated the Middle Ages and for several centuries secured for the feudal nobility their economic ascendancy.

But this was only one aspect of war economy, and certainly the less attractive to the warriors themselves. It is true they received their remuneration

in advance in the form of land, as for example in the Frankish kingdom under Pepin the Short, when land was distributed which had belonged to the Church. But all the same, war itself was bad business for the feudal vassals who were the first to bear the cost, and in feudal history there is abundant evidence that the vassals, particularly the richer ones who could lead a life of ease at home, did not always come forward eagerly when the suzerain called them up for a new campaign. Often the great overlords would need all their powers of persuasion to get their faithful vassals to mobilize. Sometimes they promised the horsemen regular pay. But money was often lacking, nor could it everywhere be used. The prospect of spoils in the form of moveable property was not sufficiently tempting, especially if the expedition was to distant parts. The suzerain's strongest trump was to promise his vassals huge tracts of land in the country to be conquered, where they in turn would become great feudal lords.

A characteristic example of this was the English campaign of William the Conqueror which brought its individual participants immense gain. The vassals of the Duke of Normandy, the most cultivated nobles in the North of Europe, refused at first to follow him in a campaign overseas, and in the face of this attitude of his vassals, William made each of them a personal promise of land.<sup>1</sup>

After the conquest, William fulfilled his promises

<sup>1</sup> William of Malmesbury, *De gestis regum Anglorum*. Ed. William Stubbs. London 1889, p. 299.

Augustin Thierry, *Histoire de la conquête de l'Angleterre par les Normands*. Paris 1867, p. 126.

without stint. First of all, of course, he looked after himself. Towards the end of his life his annual revenue amounted to £400,000. It was not till five centuries later that Queen Elizabeth succeeded in exceeding this figure, but in pounds whose purchasing power had considerably diminished. This enormous revenue of the King was derived, apart from contributions of all sorts, from the produce of 1432 estates which he reserved to himself in various parts of the country.

Next to the King came the Royal Family. Odon, William's brother, considered to be, after the King, the richest man in the country, received 450 particularly rich estates; another brother, Robert, got 973 manors. Nor had William's subordinates any cause for complaint. It is true that any hope of political independence disappeared in the autocratic and highly centralized régime that William set up in England. But, from the economic point of view, his companions in arms were well rewarded. Alan Fergant received 442 fiefs, Gillaume de Warenne 298, Geoffroy 280, Richard de Clare 171, and so on, as one may read in great detail in the Domesday Book.

To make such lands remunerative, and also to be able to perform the increased military service which they now owed their sovereign, the feudal barons let off the greater part of their property to secondary vassals, who were obliged to serve, not only in the wars of the King, but also in the private wars of their immediate overlords. But from this moment they encountered the same difficulty as the King had had

with them. To drag their tenants from their lands and get them into battle, they had to give them economic guarantees which became more and more burdensome.

All the same, the feudal barons managed to maintain their wealth and their social status for three centuries. Thereafter, little by little, they declined. The organization of an army equipped by the King and the development of new technique in arms were the chief causes, the feudal lords becoming useless from a military point of view. Even to-day a twentieth of the high English nobility claim descent from the military nobility of the fifteenth century and earlier. In reality, there are certainly less, as ancient titles of nobility have often lapsed and then at a later date been conferred on families who were being newly ennobled. The names of these conquerors have been more lasting than the fortunes their conquests brought them.

The magnificence of feudal chivalry came to an end in France at about the same time as it did in England. In France, however, the ancient families with their feudal estates survived better. At the beginning of the French Revolution, 1500 families, less, however, than a tenth of the total nobility, could trace their origin to "immemorial" nobility, that is to the "race" of medieval times.

Longer than in the West, the old warlike nobility of Central and Eastern Europe maintained its predominance based on the profits of war. But there, too, a radical economic change took place towards the end of the fifteenth century. For a little time

longer the feudal lords, no longer of military use, endeavoured to replace the profits of war by attacking and spoiling the merchants and travellers on the roads. On these practices being suppressed by centralized authority, the squires whose lands lay beyond the Elbe set out to increase their scope for exploitation by reducing the local peasants to servitude and little by little dispossessing them.

### *Conquest of the New World*

Towards the end of the fifteenth century and during the early part of the sixteenth, just at that period when throughout the greater part of Europe the feudal order was disappearing, and with it the medieval form of war profit, and when, with the organization of large paid armies, war itself underwent a complete financial and economic change, a new epoch of war-like enterprise opened in the Southwest of Europe which brought to military leaders the chances of inestimable gain. The great expeditions of the Spanish and Portuguese explorers to which we now turn, had from the first a wholly martial character, even though at first very small military units were involved.

With these daring expeditions, as with the Crusades, the motives were religious and metaphysical as much as they were material and political. But material considerations soon took a predominant place in the preparation and execution of these overseas campaigns. In their military aims and methods they reverted to the ideas of primitive times. All was

permitted: acts of violence and pillage in all their forms, even to the complete extermination of those that had been brutally attacked. If it had been technically possible, the conquistadors would certainly have put the whole New World on their ships to carry it to Europe. But they did their best. They carried off everything they could which was portable and seemed of any value whatsoever.

From the point of view of their financial organization, these primitive campaigns, having no aim but plunder, were already stamped with modern capitalist ideas. The cost of fitting out the ships of the conquistadors was carefully calculated beforehand, as well as the expediency of investing such substantial sums in such doubtful enterprises. The kings and princes, who were the first to finance these ventures, drew up carefully framed contracts with their brave captains long before the date of their departure. The share was fixed which in the case of success should go to the ruler, as well as how much of the booty the leader of the expedition might claim.

Emmanuel, the great King of Portugal, reserved for himself a fifth of the total spoils. The Spanish kings, too, demanded their "quinto" of the precious metals carried off by the conquerors. Later on when, besides rulers, private financiers took a hand in organizing expeditions, the subsequent settlement—that is to say the division of the spoils—became more complicated. More and more these enterprises acquired the character of modern companies. The captain in charge of the expedition (who in the new countries became also the first governor) generally

reserved for himself a substantial part of the proceeds.

It was perhaps due to Christopher Columbus that from the start such a high standard of profit was established for nautical and military leaders of the age of discovery. We know how this man, possessed by ambition and avidity, discussed for years with the kings of Spain and Portugal his project of finding a western route to India, and how his exorbitant personal demands caused negotiations to fall through. His calculations show a system of exploitation brilliantly worked out, and he was not going to content himself with a small return. Accordingly, he claimed, as well as all sorts of titles and dignities, a tenth of all receipts which the Crown might draw from his discoveries and an eighth of any State monopolies which might be established in the new lands.

As a matter of fact, the immediate results of the expeditions of Columbus were far more modest. The islands and that part of the American coast which he was the first to explore were more valuable for colonization than for any ready plunder. This caused disappointment; some maintained that he had been guilty of irregularities in his accounts with the Crown and he fell into disgrace. Like other lesser explorers who followed him, Columbus aimed at exploiting war on a grand scale; he died, however, without leaving a fortune.

The men who, following in his footsteps, achieved the conquest of the New World, secured handsomely what he had missed. In contrast to the campaigns of the Middle Ages, the distribution of lands played

here but a secondary part. It was not real property which was of the first importance, but chattels, valuables, all the plunder that could be seized and carried off. Silver and gold: those were the spoils for which new expeditions were continually furnished out. The number of those who failed to win it were not considerable. But some there were. In vain Hernando de Soto, Governor of Cuba, undertook an expedition full of dire calamities in the Mississippi valley, and Vasquez de Coronado, starting from Mexico, pushed far into North America, with no reward. Again, Jacques Cartier, the great French navigator, sent by Francis I, discovered what is now Canada. But he did not find the legendary land of gold for which he had set out.

### *The Spoils of the Conquistadors*

But those whom fortune favoured grew rich beyond measure. Those who achieved the greatest success were Hernando Cortes in Mexico and Francisco Pizarro in Peru. Their expeditions had quite definitely a military character. They were true colonial generals in the infancy of colonial imperialism. During his famous expedition to the centre of Mexico, the army of Cortes consisted of 400 Spaniards, with 15 horses and 7 pieces of artillery, 1300 armed Indians, and 1000 porters. Later on, he received considerable reinforcements from tribes hostile to the Aztecs and gradually his forces swelled to 7000 men.

The treasure in gold which the Aztec prince, Montezuma, offered spontaneously to Cortes as his army

approached, amounted to 162,000 *pesos*, which is more than 200,000 ducats, without counting jewels of less importance to the total value of 500,000 ducats.<sup>1</sup> But this was only the start, and Cortes was by no means satisfied with that. The sack of the capital brought him further plunder worth 131,000 *pesos*. In the course of the campaign a large part of the treasures taken were lost when a bridge collapsed, but even so the total booty seems to have exceeded half a million golden *pesos*. Cortes returned to Spain, bringing officially 200,000 *pesos* and a great hoard of silver, and his conduct was considered at Court to have been perfectly correct. However, his deputy, Salazar, and with him some subordinates, were arrested for having kept back for themselves 25,000 to 30,000 *pesos* each.

Nevertheless, the profit realized by Cortes in Mexico did not reach the treasure which in a few years Pizarro accumulated in Peru during his conquest of the Incas. Francesco Pizarro was an experienced soldier who had seen many battles in Spanish colonial wars, and he prudently began with a scouting expedition to make sure of the Incas' wealth. He then returned to Europe, and his report was so inviting that the Emperor, Charles V, as well as the Sevillian bankers,<sup>2</sup> provided all the means necessary to arm a real military expedition. Here, too, the nucleus of white troops was only small, hardly 200 men. Just as in Mexico, the rest of the army, which was to undertake a hard campaign in high moun-

<sup>1</sup> Prescott, *Conquest of Mexico*.

<sup>2</sup> Hans Wantoch, *Millionaires*. Paris 1933, p. 38.

tains, was formed of native troops. It was thus, in composition, a typical colonial army. Pizarro was, however, peculiar in regarding this campaign which promised to be very lucrative as a kind of family enterprise. He took with him a large number of relatives to participate in the plunder.

In his exploitation of the country's wealth, Pizarro used methods still harsher than those used by Cortes in the Aztec kingdom. Imprisonment of notables, the extortion of ransom, then murder and pillage—that was the procedure. Having imprisoned the Inca prince Atahualpa, the Spanish general demanded as the price of his liberation a room full of gold, the room to be three metres high, six metres wide and seven metres long. The ransom, valued at 1,300,000 *pesos*, was paid, as well as a supplementary sum in silver. The precious metals were subsequently shipped to Spain, where they were regarded as a conqueror's legitimate profit.

Spanish archives furnish us with precise information concerning the manner in which Pizarro and his companions divided this immense ransom. The *gobernador*, Francisco Pizarro, received a share of the gold valued at 57,000 *pesos*, his brother, Hernando, 31,000, while another member of the family got 11,000. Two other subordinate chiefs divided 25,000 *pesos*, and 48 horsemen were rewarded with 9000 each. Infantrymen were entitled to about 4000 per head. Silver was distributed in the same proportion! Of the whole, the conquerors received 80%. The remaining 20% went to the Crown, and it seems that the latter was under obligation to satisfy the claims

of the private financiers who helped to fit out the expedition.

This ransom—a ransom in name only, for it did not save the life of the Inca prince—was nevertheless only a part of the plunder of this war. The sack of the capital and the continued extortions inflicted on the population brought a tribute to the Spaniards, whose total is estimated at £6,750,000 in modern currency. When the gold of the Incas began to give out, the Spaniards turned, as they had previously done in Mexico, to the country's silver mines. The youngest brother of Francisco, Gonzalez Pizarro, undertook to work the mines of Potosi, which from now on, for a whole century, became Spain's most important source of silver.

### *Privateering*

The convoys which every year transported the produce of the American silver mines—in good years they carried 10 to 15 million ducats' worth of the precious metal—were the favourite object of attack. In the sixteenth and seventeenth centuries piracy, privateering and regular warfare overlapped to such an extent throughout the wars which were to decide the mastery of the seas, that one must consider the privateers, at all events those provided with letters of marque and royal privileges, as the recipients of true war profits. Whereas the feudal bandits of the fifteenth and sixteenth centuries were the product of the decay of a warrior caste that was destined to disappear, the privateers at sea were the pioneers of

the modern naval powers and often constituted the auxiliary forces of proper navies. In its economic aims and financial methods privateering is hardly to be distinguished from those expeditions of the age of discovery whose object was the conquest of new lands.

With the progress of capitalization, private financiers took an increasingly important part in fitting out the vessels and consequently also in the subsequent proceeds. For this purpose proper companies of shareholders were formed, though royalty continued to be largely involved financially. The formidable plunder brought back by Francis Drake from his marauding expedition on the coast of South America from 1577 and 1580, was sufficient for the shipowners to get practically 100% on the money they had sunk in the venture. The surplus, which was very considerable, went to Queen Elizabeth, and Drake was not only handsomely remunerated for his services, but was also knighted by the Queen.

In France at the time of Louis XIV, privateering enjoyed an extraordinary prosperity, and the Court eagerly took part in these enterprises, at once glorious and lucrative. Madame de Montespan set the courtiers a brilliant example in fitting out three ships herself. The great colonial companies of the seventeenth century were not only themselves the victims of privateering, but they did not hesitate to use the same means to improve their balance sheets. Between 1623 and 1636, the Dutch East India Company captured no less than 514 ships, and thereby made more than her fleet had cost her to build.

As commercial development proceeded, however, the privateers were gradually left behind. Their profession retained its prestige but it was not very paying, earning hardly more than regular military service. They and their men received from the shipowners a small regular salary and only a modest share in the spoils. Accounts kept at a French port in the time of Louis XIV under strict official supervision gives us the following details. First of all, a considerable part of the proceeds of an expedition went to meet legal costs, harbour dues, warehousing, selling, etc. Next 10% went to the Admiral of France, that is, nominally at least, to the State. The Duc de Chaulnes, Admiral and Governor of Britanny, received in the year 1692 alone the sum of 9,000,000 *livres*.<sup>1</sup> After these deductions had been made, the remainder was divided between the shipowners and the personnel of the expedition, the former getting two-thirds. Distribution to the men was on the following scale: to the ordinary soldier 1 share, to the sailor 2, to the carpenter 4, to the surgeon 8, to the bursar 12, to the lieutenant 16, and lastly to the captain 24.

The big ships employed in this trade often carried 300 men and more, in which case the captain would not receive more than 2 or 3% of the prize. Later, as privateering declined, the prospects of those engaged in it became still worse. Thus Angenard, one of the last privateers of St. Malo, operating at the period of the Napoleonic wars, complained of having delivered to his masters more than 2,000,000 francs in the space of twenty days and having received for

<sup>1</sup> André Savignon, *Saint-Malo nid de Corsaires*. Paris 1931, p. 95.

himself no more than 34,000 francs. The crews suffered above all from the increasingly bureaucratic procedure which delayed interminably the settlement of accounts. Under Louis Philippe, some old sailors came at last to receive their share of prizes taken under the First Empire, thirty years before.<sup>1</sup>

As a result of the delays in settlement and the relatively modest renumeration, many privateers sought compensation in other ways. Some had recourse to open piracy; some landed their plunder in the course of their voyage at some safe and secret port; there were even those who burnt their ships on distant coasts and retired with their captured treasure to lead a quiet life abroad. A *buen retiro* popular with old privateers and pirates about 1700 was provided by the young English colonies of North America. A certain number of them were to be found at this period at Boston, where they enjoyed a comfortable competency and perfect respectability.

It seems, however, that few among these professional exploiters of war succeeded in amassing really big fortunes. These were chiefly those who were in a position to finance their expeditions themselves without recourse to financiers who would claim the greater part of the spoils. And for these independent adventurers, what mattered was not so much their martial courage as the soundness of their business calculations when they fitted out their expeditions. A typical career was that of Duguay-Trouin, the most famous privateer of St. Malo,

<sup>1</sup> Henri Malo, *Corsaires et Filibustiers*. Paris 1932, p. 30.

revered still to-day as one of the great nautical heroes of France.

Duguay-Trouin came of an old family of privateers and shipowners which in the course of several generations had amassed a considerable fortune. The young Duguay-Trouin was intended at first for the priesthood, but he soon returned to the trade of his fathers and in his seventeenth year he was captain of a privateer owned by the family. He succeeded in capturing some valuable prizes, but he was possessed by the ambition to fit out more and more ships and he finally pursued his prey accompanied by veritable squadrons. To satisfy this ambition he was obliged to borrow money in increasingly large amounts. Though capturing in the course of twenty years 320 ships and cargoes worth millions of francs, he was so deeply in debt as a result of long and costly expeditions, including a few failures, that he had hardly enough to live on.

In this sad condition he conceived a gigantic scheme, important also from a political point of view: he wanted to undertake a military expedition to Brazil to punish the Portuguese who had allied themselves with France's enemies, and at the same time to revenge the defeat of a French squadron which had recently taken place on the Brazilian coast. He submitted his plans to the King. Louis XIV was quite ready to give him his paternal blessing, but, as the exchequer was empty, not the one or two million *livres* needed for the expedition. So Duguay-Trouin decided to undertake the venture at his own risk. He formed an association with six rich

*bourgeois* of his native town, and the seven "directors" were able between them to put up a sum of more than  $1\frac{1}{2}$  million *livres*.

This enabled activities to start, and in several French ports ships were simultaneously fitted out. Finally, in 1711, Duguay-Trouin was sailing South-West at the head of a powerful fleet. 17 big ships carrying 738 guns and 5864 men were under his command. Three months later he had already taken Rio de Janeiro in spite of its strong fortifications. The necessary sack of the town did not give the brilliant results which might have been expected. The Portuguese had been wise enough to remove their gold and silver beforehand. But Duguay-Trouin got over the difficulty. He declared himself ready to leave the town without burning it if a large indemnity was paid. The Portuguese governor agreed and the French fleet sailed off laden with treasure. Although during the voyage home several ships carrying some 600,000 *livres* in gold and silver were lost with all hands, Duguay-Trouin nevertheless brought back plunder to the value of more than 5,000,000 *livres*. The financiers of the expedition received a dividend of 92%, that is to say they practically doubled their capital.

The victorious privateer was covered with honours by the King. Under Louis XV he received the highest military dignities. But in spite of all, Duguay-Trouin died without a fortune. On the other hand, his cousin, Alain Porée, who worked on a much more modest scale, and who incidentally was not over-scrupulous in his accounts, quickly became a millionaire.

*The Condottieri*

While private warfare at sea was increasingly hampered by red tape and by meticulous business accounts, on land the profession developed and became at once the most magnificent and the most brutal manifestation of budding capitalization. The Italian *condottieri* of the fifteenth century are generally considered as the originators of this profession. They did indeed give to it their name, but to a certain extent it had always existed and even exists to-day. The commander of paid troops who, eager for money and power, assembles an army to make war, either on his own account or in the service of a foreign power, is a phenomenon which is constantly to be met with in history.

Generally the careers of these adventurers were short, ending in a violent death, though not necessarily on the field of battle. Assassination, confiscation of their property—that is an end which meets them often. But till then it is a life full of excess, without measure, the life of the *parvenu*, of the true war profiteer. The palaces and monuments of the *condottieri* which still exist in the towns of Northern and Central Italy, show the wealth and status which these audacious leaders of soldiery were able to win. Some impressive figures have come down to us from this period. Fascino Cane, the Milanese *condottiere*, acquired a fortune of 400,000 golden florins. That of the Venetian *condottiere*, Colleoni, amounted at the time of its confiscation to 216,000 ducats, a fortune exceeding that possessed by the contemporary Doge

of Venice, though the latter was considered to be a particularly rich man.<sup>1</sup>

### Wallenstein

In the lands of Western Europe the growth of royal power put a limit to the wealth and power which a general could acquire. All the more freely did the *condottiere*, the type of soldier of fortune, spread in Central Europe. It reached its zenith in the Thirty Years War and in the person of Wallenstein, whose profits from war were perhaps the most considerable and certainly the most varied ever reached by a general. Wallenstein was far from being the simple commander of soldiery who with some thousands under him sets out on the hunt for plunder and for power. He was an *entrepreneur* on a grand scale, who supplied arms and all their accessories. He controlled what might be called a whole consortium of war with many branches and a highly complex central administration.

The former methods by which the *condottieri* enriched themselves were completed by a whole system of contributions. Wherever Wallenstein's troops arrived the local population was not only liable to requisitions in kind, but was, moreover, forced to produce a large sum of money, and this regardless of whether they were friends, foes or neutrals. In this way funds were provided for the current needs of the army, or, to use a modern phrase, to meet its running expenses. If all went well, Wallenstein could put aside a con-

<sup>1</sup> Jacob Burckhardt, *Die Kultur der Renaissance in Italien*. 9th ed. Leipzig 1904, vol. i, p. 321.

siderable part of the sum the Emperor was due to pay him for his army, though this, by the way, was not always paid. After that came the profits on goods supplied to the troops of subordinate commanders, the profits on speculations on the fluctuation of prices, and the profits of inflation, that is to say, the profits realized by debasement of the currency, a matter in which the general was not without influence.

Once again, as in the Middle Ages, the acquisition of landed property became the chief element in the building of a fortune, with this difference that now everything took place according to the formulas of capitalist economics. Having confiscated the lands of his enemies, the general sold them by auction. Often he bid for them himself and in this way bought land very cheaply, for who would dare to bid against Wallenstein's agent? It was organized pillage with all the finesse of modernity.

To exercise the functions of a capitalist *entrepreneur* and exploiter of war, it is first of all necessary in one way or another to get hold of money. Springing from a family of small Czech county nobility, only moderately well-to-do, Albrecht Wallenstein could find no better road to rapid fortune and social advancement than that offered by a wealthy marriage. In 1609, at the age of twenty-five, he married an elderly widow, Lucretia Nikossie von Landeck, the owner of large estates. This rich and devout woman died not long after, and the young widower inherited her lands, four large estates in Moravia whose value was estimated at 400,000 florins.

Now Wallenstein could live in splendour, appear at Court, and spend as it pleased him. All the same, he preferred, whenever possible, to make use of the money of others. Thus he took possession of the war funds of the great Moravian nobles who had risen against the Emperor. He then declared his loyalty to the Emperor, and in proof of his fidelity he laid the treasure of 90,000 crowns at the feet of his master in Vienna. The Moravian nobles revenged themselves by seizing Wallenstein's estates. For a moment he seemed financially ruined, but in the long run he showed that he knew how to cast in his lot with the winning side.

The victory went to the Emperor's troops, amongst whom was a regiment of cavalry raised by Wallenstein. Then the tide turned: the Bohemian and Moravian rebels suffered wholesale confiscations and fines, while those who had remained loyal were generously rewarded. Not only did Wallenstein regain possession of his own estates, but he also obtained those of one of his relations who had fought against the Emperor. He was able to exact from the towns of Northern Bohemia heavy contributions, which went into his own pocket. Moreover, he turned the war to good account in another way in buying up a great stock of provisions, which he resold very profitably in Prague, which was prostrated by famine.

Accordingly, he had once again at his disposal considerable sums of money when in the autumn of 1621 the imperial treasury started systematically to sell or rather to dissipate the confiscated lands. The

great nobles of Moravia profited to their hearts' content, but Wallenstein surpassed them all. He bought several great domains of Berka von Dub; for the price of 150,000 florins he acquired the great feudal lands of Friedland and Reichenberg; he got possession of the vast estates of Smirzitsky; and so on. In this way, Wallenstein, in the course of two years, secured over sixty landed estates. Up to this point he had held no high military appointment, yet he had become one of the richest landlords in the country.<sup>1</sup>

It was this fortune which provided the basis for his subsequent career. A few years later, when the Emperor was once again in difficulties, Wallenstein presented himself in Vienna and offered to equip a whole army at his own expense. Could he, he was asked, raise an army of 20,000 men? Of 50,000 was the answer, and 20,000 were mobilized there and then. Later Wallenstein's army grew to 70,000, and even at moments to 100,000. The price, considerably inflated, which he charged the Emperor amounted to 2 million crowns.<sup>2</sup> Vienna, always impoverished, was incapable of paying such a sum in cash. So the general was indemnified with the Duchy of Sagan, in Silesia, and the two Duchies of Mecklenburg.

When, after an interval of two years, the Emperor once more made Wallenstein his generalissimo, the latter secured as much of his profit as possible in advance. The Emperor was forced to write off the

<sup>1</sup> Ranke, *Geschichte Wallensteins, Meisterwerke*. Munich 1915, vol. ix, p. 26.

<sup>2</sup> Wantoch, *Millionaires*, p. 60.

debt of 400,000 crowns which Wallenstein still owed for the purchase of the Bohemian estates. In the place of Mecklenburg, which just then was occupied by the enemy, he received as indemnity the principality of Glogau in Silesia. Moreover, he was promised revenues from the salt works and mines in the reconquered parts of the empire. But Wallenstein insisted most of all on being given the right to impose taxes of his own on the provinces he subjected. And although already ill and with his military fortune declining, he did not fail to demand from the Emperor the fulfilment of all his promises, both those made in writing and even those more lightly given. In fact he became more and more exacting, and he endeavoured to make sure that his heirs would enjoy his wealth. Even in his most daring aspirations after power, which finally cost him his life, everything was based on calculable profit.

To the last act of the tragedy of Wallenstein it was the question of money which played the decisive part. When they wanted to force him to abdicate, the burning question was: who would pay? Who could replace Wallenstein as the financial centre of war, without a general crash resulting? How could all the sub-contractors be satisfied, how could the creditors? How could all the manifold engagements be settled? The muddle recalls the difficulties of liquidating a modern financial or industrial concern based entirely on the personality of a single head. The moment the chief is threatened, catastrophe is imminent. Wallenstein was well aware of the value of this trump in his hand. And it was easy for him

to convince his subordinates that the financial bonds that bound them to him were indissoluble.

Indeed, things were very complicated. Wallenstein's colonels had raised their regiments at their own cost, and the same was often true of captains and their companies. Accordingly, the whole army was composed of war *entrepreneurs*, big and small, and Wallenstein had given personal guarantees to all. He had made them advances for their equipment, while on the other hand he was often their debtor for current expenses, so that there were complicated settlements to be made all the time.

How could such a tangle be unravelled? At one time, in Vienna, the possibility of paying off all the subordinate commanders was considered. But even a superficial calculation sufficed to show that a million florins would be needed, and the Emperor was incapable of finding such a sum, although considerable wealth was now flowing in from Spain. In the end there remained intrigue and forcible liquidation as the only way out. To get rid of this military magnate, a lawsuit against him was begun, and his arrest was ordered. The executive authorities, however, instead of carrying out their orders from Vienna, promptly assassinated Wallenstein. To excuse this irregularity, it was given out that Wallenstein, even dispossessed, would have been far too powerful and dangerous a man.

With Wallenstein out of the way, liquidation in the end turned out to be less difficult than it might have been, and the commanders who had already abandoned Wallenstein were handsomely recom-

pensed with property confiscated from him. On the other hand, those who were faithful to him to the last were dispossessed and some of them even executed. A part of the army was discharged, while the rest was drafted into the regular service of the Emperor.

Of Wallenstein's immense fortune, which at the height of his glory was estimated at 30 million ducats (equivalent to about £2,700,000 to-day), quite a considerable part remained in the possession of his family, including the sumptuous castles in Prague and at Dux in Bohemia. With this wealth Wallenstein's family, the Counts of Waldstein, were for centuries assured of an eminent place among the rich nobility of the Austrian Court. Later, one of its members acquired glory of another kind in being the friend and benefactor of Beethoven. The larger part, however, of the profits of war amassed by Wallenstein were dispersed in the same fashion as they had been acquired by passing into the hands of other soldiers of fortune.

### *Marlborough*

During the decades following the Thirty Years War the system of regular armies was adopted nearly everywhere. Governments, put on their guard by Wallenstein and other similar cases, felt themselves obliged to maintain armies at their own expense in peace-time as well as in war-time. Nevertheless the financial situation of military leaders remained extremely favourable, while at the same time their material risks were lessened.

It was by no means rare for governments to send for foreign professional soldiers who were rewarded by exceptionally high salaries. In this way, Prince Eugene of Savoy, who on his arrival in Vienna was possessed of only modest means, was able to make an immense fortune in the service of Austria. The Duke of Schomburg, who came originally from Germany, and who in the course of a varied career had already been Marshal of France, was at the age of eighty appointed commander-in-chief of an English army operating in Ireland. He received from Parliament an advance of £100,000. Though now employees, generals had still much the same prospects as the independent soldiers of fortune had formerly enjoyed. They could not only win laurels on the field of battle, but could live and even die millionaires.

Those of them who kept their eye fixed on pecuniary gain and were not to be satisfied merely with high appointments or dignities, quickly became the richest men in the country. The Englishman, John Churchill, Duke of Marlborough, who gave so much trouble to the French troops towards the end of the reign of Louis XIV, is a brilliant example of this sort. One could even say that this general of genius surpassed all other military leaders in turning every act of his public and private life into hard cash.

An impecunious young man, he availed himself of the influence of his sister, whose amorous relations with James II are well known, and became an ensign in the Guards. The income of the young officer rose at a stupefying rate. The Duchess of Cleveland rewarded his gallantry with a gift of £5000. But

Churchill did not spend money so easily as he acquired it. The bulk of the profits of his amours were invested in an annuity, while the gold pieces which the great ladies slipped into his hand were locked carefully in a drawer. That was the *début*, according to the most authentic contemporary witnesses, of the great Marlborough. After receiving from Turenne, Marshal of France, an excellent strategic schooling, and having proved his courage on the field of battle, he rose quickly in rank in the army and was given brilliant opportunities. Now a colonel and a Scottish peer, he was sent to the Court of Versailles on a special diplomatic mission of a very delicate nature. He was sent to thank Louis XIV for the monetary helps England had received from France and to prepare the ground for the request for further subsidies. Churchill accomplished his task admirably, and soon 1,500,000 *livres* arrived from Versailles, a sum intended to square the English Parliament. From such transactions intermediaries do not come away with empty hands if they are of the kind that care for money.

John Churchill was thus very comfortably off when at the age of thirty-seven he was made a general and appointed henceforward to posts of high command. While he was campaigning in England or abroad, his wife, Lady Sarah, who set herself also to increase the fortunes of the family, was lady of the bedchamber and intimate friend of the princess Anne, daughter of James II. Her position carried with it a considerable salary, while the favours she received personally were more profitable still. Completely dominated by

the Churchills, the princess was so extravagant that Parliament was obliged to increase her civil list pension from £30,000 to £80,000 a year. And the Churchill fortune grew and grew.

Soon after the revolution of 1688 the income of John Churchill, now raised to the dignity of Earl of Marlborough, amounted to £12,000 a year, derived from a multitude of posts and functions of all sorts.<sup>1</sup> But in a revolutionary period such as that through which England was then passing, the highest positions offer no security to those who do not know how to adapt themselves to the constantly changing political currents. In this domain, Churchill was an artist. At the right moment he abandoned James II, friend of France, and entered the service of William III. Having conspired also against the latter he fell for a time into disgrace; but it was not long before he was once again in the service of the King and in a better situation than ever.

His most glorious period, however, began in 1702, when Anne came to the throne, soon after which war broke out between France and England on account of the Spanish succession. Given supreme command of the English army, Marlborough was now able to prove that his career was not just a matter of favouritism, but was merited by his remarkable military gifts. The victories he won against the armies of Louis XIV astonished the whole of Europe. They brought him royal gratitude and further riches. After his victory at Blenheim, he was made the gift of the great estate of Woodstock, near Oxford, an

<sup>1</sup> Macaulay, *The History of England*. London 1926, vol. ii, p. 268.

ancient royal domain bringing in £6000 a year.<sup>1</sup> Further, he received £140,000 for the construction of the really princely Blenheim Palace, which is still distinguished among the country houses of England by its colossal dimensions and its elaborate architecture.

England's allies, too, proved lavishly their gratitude to the victorious general. As well as becoming an English duke, he was made a prince of the German Empire. The visits he paid to the little German Courts became a triumphal procession, and precious gifts accompanied the expressions of friendship. It is not to be wondered at that the commander-in-chief was in no hurry to end the war. Those at Versailles understood Marlborough, having dealt with him before, and they knew that he would not agree to make peace unless it was worth his while. So Torcy, the French foreign minister, offered him a large sum of money. On principle, Marlborough did not refuse to listen to this sort of proposition. But at the sum of 10 million *livres*, demanded as the price for an armistice, the French lost patience, negotiations fell through, and the war went on.

This time Marlborough, for all his shrewdness, made a mistake. The fortune of war once more favoured France, and in England, with a new parliament, the situation had changed. The Tories, now in power, did not want the war to drag on indefinitely, so they planned to bring about Marlborough's fall. With a man of such cupidity, pretexts were not lacking. It had for long been whispered in London that Marlborough put in his pocket large sums

<sup>1</sup> Winston S. Churchill, *Marlborough*. London 1934, vol. ii, p. 519.

allowed him for entertainment expenses, and that even to his own officers he was lacking in the most elementary hospitality. Moreover, it was said that his lists were falsified, names still appearing on them of men long since dead, so that he could go on drawing money for their rations.

And then people got wind of another irregularity. The auditors of the army accounts discovered that Marlborough was receiving commissions from a contractor to the tune of £5000 or £6000 a year. The evidence was not to be disputed, and Marlborough did not attempt denial. But he sought to excuse himself in pretending that this money had been used by him for secret service work, that is to say in the interests of the State. Neither parliament nor public opinion, however, was ready to listen to his subterfuges, and Queen Anne found herself forced to abandon him. The glorious general was relieved of his command, and soon after at Utrecht peace was signed with Louis XIV.

During the last years of his life, Marlborough, now in his sixties, was involved in further scandals. It was discovered that as a colonel of the Guards he had made a profit out of a consignment of shirts to his regiment. The indignation of the soldiers at this discovery was so violent that mutiny was feared. Then Marlborough's son-in-law, the Earl of Sutherland, was inculpated in the South Sea Bubble. When any questionable affair came to light, the name of Marlborough was always mentioned. Nevertheless, his wealth survived his good name. At the end of his life his yearly income amounted to £120,000. Thus, considering the rate of interest prevalent at

the time, his fortune must have reached £2,000,000 without counting his palace. Indeed, his contemporaries were not very far wrong in considering him "the richest subject in Europe."

The case of Marlborough is perhaps unique in its proportions and in showing the determination which cupidity can exert. Marlborough's type, the soldier and courtier who lets no opportunity escape which could be turned to profit, is found in many forms during the seventeenth and eighteenth centuries. It may be found as far afield as Russia, where the General Potemkin, the favourite of Catherine the Great, subjected the Crimea to the rule of the Tsars and amassed himself, though spending inordinately, a fortune valued at several million roubles. Rulers considered it only natural that their generals should lead the lives of *grands seigneurs*.

Frederick the Great, who personally was not one of the most generous, gives us in his witty *Dialogues of the Dead*, a conversation in the other world between Marlborough and Prince Eugene on the vicissitudes of fame. The English general seeks to excuse his profits in these words: "It is a legitimate reward due to any commander-in-chief; any other in my place would have done as much, perhaps more." And although murmurs began to be heard, that was the general view taken in those days.

### *The Napoleonic Wars*

The French Revolution brought no essential change. The new generation of soldiers who rose to power

under Napoleon had quite a healthy appetite for wealth. Nor did the young Bonaparte disdain the good things of life, though from the outset he was tempted more by fame than money.<sup>1</sup> The Italian campaign followed the same course as the old raids for plunder. The soldiers and junior officers received only a minimum of the riches which Bonaparte had promised his army beyond the Alps, while the generals were despatching to Switzerland for greater security the treasures that fell into their hands. When Rome was taken, the unjust division of the spoils provoked a dangerous revolt among the officers against their general, Masséna, and the latter, who had entered the Eternal City with a somewhat exaggerated zeal, had to be recalled in spite of his brilliant success.

From the expedition to Egypt onwards, Napoleon tried to avoid as far as possible this kind of warfare, and he continually exhorted his men to abstain from pillage of any kind. That officers or men should help themselves to wealth was against the Napoleonic spirit of authority and centralization. He himself, the commander-in-chief, First Consul, or Emperor, allotted to each of his followers his just reward. And he generously recompensed all their privations and rewarded all exceptional services. The principle of gratuities, whether as income or as a lump sum, settled by authority had already existed before, but it had always been mixed with other forms of war profit. Now it existed alone, and was the basis of the enormous profits of Napoleon's generals.

For Napoleon kept his word. After his assumption

<sup>1</sup> Gourgaud, *Journal inédit de 1815 à 1818*. Paris 1899, vol. i, p. 468.

of autocratic power, he generously distributed titles and wealth amongst his generals. After the victorious Prussian campaign gratuities were plentiful. On the fall of Danzig, he made Marshal Lefèvre a duke. This was a man who had risen from the rank of non-commissioned officer. And to fit his new dignity, an order was sent to the treasury in Paris to buy him a *château* and lands bringing in an annual income of 100,000 *livres*. At the same time he told Mollien, the Minister of finance, to get hold of twenty *châteaux* belonging to the old nobility, to be held in reserve for future occasions.

On Napoleon's return to Fontainbleau in 1807 a general distribution took place, for which he had made thorough preparations. Of the property sequestered from the State or the Crown in the conquered territories, he had put a good deal aside for this purpose: in Italy a capital of 30 million francs and an income of over a million, in Poland estates worth 20 million, and in Westphalia an income of 5 to 6 million. The internal finances of France having been put straight with a new budget, the Emperor had sufficient funds at his disposal to reward liberally those who had contributed to the victory. 12 million francs were distributed among the soldiers, 6 million among the officers, excluding the generals. The latter received no less than 11 million.

It was a carefully calculated pyramid, at the summit of which were the millionaires who wore a ducal coronet or carried a marshal's baton. Ordinary generals had to be content with salaries of 50,000 francs a year, that of senior generals rising to 150,000.

As for marshals, their salaries began with 172,000 for Augereau and 183,000 for Masséna. Mortier and Ney got about 200,000 each, while Bernadotte, Soult and Lannes got nearly 300,000. Next came Berthier, Napoleon's chief-of-staff, with 405,000, and lastly Davout, who won the battle of Auerstaedt, with 410,000. This was the highest salary of the State outside the family of Bonaparte, for the heads of the judiciary and the treasury got only 200,000 francs apiece, while Fouché, chief of police, and Mollien, the financial reformer, got as little as 40,000 to 50,000 francs.<sup>1</sup>

Cash gratuities were also carefully graded. In one distribution, generals received each 100,000 francs, most of the marshals 200,000 to 300,000, Berthier half a million, while one million was given to Lannes, a son of a groom who had risen to the dignity of Duke of Montebello. Two Polish generals, Zayonscheck and Dombrovski, got as much as the favourite marshal, becoming suddenly millionaires. Similar distributions were made on other occasions during Napoleon's campaigns. At one time Lasalle was rewarded with a million francs for his extraordinary bravery.

As Napoleon's empire expanded, his generosity increased. The marshals' salaries were doubled and even trebled. Masséna's salary reached 683,000 francs, Ney's 728,000, Davout's 910,000. Berthier's exceeded a million; Prince of Neuchâtel, vice-constable, marshal, etc., his various appointments brought him 1,355,000 francs a year. Nevertheless,

<sup>1</sup> Thiers, *Histoire de l'Empire*. Paris 1865, vol. i, p. 515.

the prestige of the marshals rested on the fame of their exploits rather than on their pay. Civil salaries, it is true, also greatly increased, particularly those of diplomats.<sup>1</sup> But the handsome salaries of Talleyrand or Coulaincourt (who was given 800,000 francs as ambassador at Petersburg) were intended to enable them to entertain on a scale that would impress foreign powers.

But it cannot be said that these immense rewards altogether satisfied their recipients or served to bind them to their patron. Masséna was disappointed at not being placed upon a throne like Murat and Bernadotte. Murat grumbled at being only made King of Naples with 5 million subjects and not King of Spain with 13. Bernadotte, becoming King of Sweden, detached himself from Napoleon and even went into the camp of his enemies. At the moment of Napoleon's first abdication, when his power seemed to have been definitely broken, the loyalty of his marshals was not in the least proportional to the remuneration they had received at his hands, for the most rewarded left him as lightly as the others. It seems that in the political world, money only binds those who are expecting further payment. Napoleon realized too late that he had calculated badly. During his banishment he was given to melancholy thoughts on the independence which material wealth had given to his subordinates.<sup>2</sup>

Napoleon himself, in the course of twenty years,

<sup>1</sup> Edmond Blanc, *Napoléon I<sup>er</sup>, ses institutions civiles et administratives*. Paris, pp. 276-299, 325, 326.

<sup>2</sup> August Fournier, *Napoléon I<sup>er</sup>*, 4th ed. Vienna 1922, vol. ii, p. 205.

managed to accumulate an immense fortune, often putting aside 12 to 15 of the 25 million a year he got. But little of it remained. At the time of his first abdication, he had still 18 million, but the greater part of it was confiscated by the new government. On his departure for St. Helena, he was able to send secretly to the banker, Laffitte, a sum of only 5 million francs in gold and bank-notes.<sup>1</sup> He took with him into exile only 350,000 francs and some silver, which he was obliged to sell during these lean years. For the funds placed with Laffitte had to be kept secret, the whole Bonaparte estate having been officially sequestrated in France. On the other hand, the fortunes of his generals remained intact.

### *Wellington*

The greatest profits of these wars, and those which proved the most lasting, were not, however, those realized by Napoleon's generals, but rather by their enemy. It was Napoleon's conqueror, Wellington, who got the lion's share. Arthur Wellesley belonged to a world where money, reputation and power were very nearly synonymous. Although the aristocratic Irish family from which he came was not particularly rich, the young officer had learnt in India, where his brother was Governor-General, to think in terms of big money.

The army which Wellington commanded in Spain and Portugal was formed of men from every country whose ways somewhat resembled those of the soldiers

<sup>1</sup> *Mémoires de Laffitte*. Paris 1932, pp. 74-78.

in the Thirty Years War. The officers were mostly rich and of good family. Wellington did not like impecunious officers who were obliged to live on their pay. Although he was not an *entrepreneur* of war in the old style, he was often forced to intervene in its finances, as money did not always come regularly from London, and this sometimes involved him in complicated transactions. His correspondence with the British Government on money matters at times resembles in its tone the discussions of Wallenstein with the Emperor. But his dominating theme is different. Wellington uses threats and reproaches in an effort to secure money for his army, and his constant argument with the gentlemen in Whitehall is: better not to go to war if you have not the money to pay for it.

The government were grateful enough to their commander-in-chief. They loaded him with titles and, when they had the means, with monetary gifts. Already for his first successes in the Peninsular War they gave him £500,000. After Waterloo, the English Parliament voted him a grant of £200,000. Besides that he received large estates from the King of the Netherlands. It seems that the total of all he was given came to nearly a million pounds, so he outdistanced all the marshals of Napoleon. And the fame he won as Napoleon's victor gave him political power such as no one else has enjoyed in modern English history.

The Prussian generals did not reap so much. Titles were given freely; thus Blücher, the commander-in-chief, and Hardenberg, the chancellor,

were made hereditary princes. But their material gain was so small that their sons renounced succession to their titles, feeling their means inadequate to enable them to live up to them. It was only after a wealthy marriage that Blücher's grandson felt rich enough to ask for the title to be restored, and the Blüchers were ennobled a second time.<sup>1</sup>

*Bismarck pleads for Gratuities*

The system of grants which reached full development in the time of Napoleon, flourished throughout the nineteenth century. Sometimes during a war, but more often on its conclusion, victorious generals were rewarded with substantial gifts, in some cases with special annuities over and above their pay or pension. All the same, compared to former periods, and taking into account the continued increase in the scale of national finance, these gifts became more and more modest. In countries where monarchs were absolute, they might sometimes deal out benefits in the Napoleonic style. Thus the Tsar Nicholas I rewarded his general, Paskevitch, who had conquered Transcaucasia with a share in the indemnity of 80 million roubles which Persia was forced to pay. But even Napoleon III, who was anxious to revive the glories of the Empire, was much less lavish than his uncle in rewarding his marshals.

In that, he was only conforming to the spirit of the times. With the institution of compulsory military service and the formation of great national armies,

<sup>1</sup> Bismarck, *Gedanken und Erinnerungen*. Stuttgart 1922, vol. ii, p. 171.

public opinion underwent a change. The idea grew that in war every citizen would be called upon to do his duty and risk his life. Why then should a general receive such extraordinary benefits, less exposed as he was to the risks and discomforts of war? Why should he return from the war a millionaire when thousands of soldiers had sacrificed their civil livelihood to take up arms? Such thoughts began to affect public opinion, and the system of monetary grants to soldiers became unpopular.

There was another factor whose influence was more direct. Monarchs and governments could no longer scatter money so easily as before. The budget of a State was fixed beforehand with considerable precision, and all expenditure was rigidly controlled. In most countries it was reserved for parliament to authorize or to veto the spending of money in this way. Accordingly, before making awards, governments were obliged to draft legislation, and they had even to be prepared to face public debate. This constituted a serious obstacle to any largesse in the old style.

These difficulties emerged for the first time when Bismarck was in office. Conscious though he was of his power, Bismarck was on all money matters a Prussian bureaucrat at heart, respecting legal forms. When in 1866, after the successful war with Austria, the King of Prussia wanted to reward his soldiers, Bismarck thought it necessary to submit the matter to parliament. It was particularly embarrassing for him as he had recently had a violent quarrel with the Diet, whose approval he was now to seek, and it

was all the more so as he was to receive a grant himself.

In the excitement of victory, however, all went well. The Prussian Diet granted a total sum of 1,500,000 thalers (about £370,000), to be distributed as the King might think fit. Not published at the time, the details were only known later. Bismarck received 400,000 thalers, with which he bought the famous estate of Varzin and three others in Pomerania. The rest of the grant was divided between the generals Roon, Moltke, Bittenfeld, Steinmetz and Falckenstein.

The same procedure was followed after 1870, but on a larger scale. This time, 4 million thalers were allocated. Even before peace was definitely concluded or the war indemnity exactly fixed, Bismarck in April 1871 came before the Reichstag to get the grant authorized. The speech he then made shows how conceptions had changed in the two generations following the Napoleonic wars. In a verbose and sentimental style which was quite foreign to him, the chancellor sought to explain to his listeners that this was a question close to their monarch's heart, "an act of royal generosity for which His Majesty begs you to accord him the means."<sup>1</sup>

But that was not all. Although the ordinary soldiers of the German army received nothing, as had been the case in the army of Napoleon I, the millions which went to the generals were to be regarded as a sort of prize destined to stimulate the zeal even of the common grenadier, who theoretically could reach the rank of general. There were, in

fact, a few cases in a century of men rising from the ranks to the highest military honours. Bismarck went further still in pleading for the grant, representing these rewards as a means of education for future generations. "If so often the tired soldier leaves the service prematurely saying to himself: 'I have not reached the goal,' there still remains for him the hope that his sons may accomplish some extraordinary feat and in the service of their country win that reward which the Kaiser now begs you to authorize."

The Diet responded to Bismarck's pathetic appeal, the grant was voted and the Kaiser, William I, divided the 4 million thalers among twenty-seven generals as he thought proper. Bismarck, this time, received a special reward. At first he refused the title of prince which the Kaiser wished to confer on him, considering that he was not rich enough to live up to it. But his fortune, too, was considerably augmented. After a series of administrative complications, he was given the Sachsenwald, a property of about 18,000 acres in Holstein, with the castle of Friedrichsruh, the value of which amounted to several million marks.

If in the course of the Prussian wars of Bismarck's time some of the generals got rich, the way in which it was accomplished showed already the decline in the profits of actual warfare. These no longer fell naturally into the hands of victorious generals as had formerly been the case, but had to be secured by sweet words and hard bargaining from the institutions whose business it was to watch over the finances of

the State. To get rich was no longer the unquestioned right of generals. In fact, it was no longer quite to the taste of public opinion, which regarded it as morally questionable, and had to be placated by all sorts of artifices.

*Frank Steinhart*

This trend of opinion became more pronounced during the colonial wars at the end of the nineteenth and the beginning of the twentieth centuries. Although at this period of intensive imperialism, when economic interests were supreme, people did not hesitate to take advantage of colonial expeditions to increase their wealth, it was far from being accepted that the soldiers in charge of them should have a share in the spoils. Even in the seventeenth century the colonial soldier had been the servant of the business man. If the former was the military conqueror, the latter was the economic. By the end of the nineteenth century this was still more marked.

Now, the first steps in imperialist exploitation were taken by the business pioneer, pushing his way into countries which did not yet belong to any great power. It was only after economic interests had in this way already developed that State imperialism would intervene, sending a military expedition to protect the private interests of its nationals. Whether it was an English army subjecting the Boers to secure the exploitation of South Africa's gold and diamond mines, or whether it was the United States sending

war-ships and troops to Mexico to protect the American oil magnates against interference from the revolutionary government, the generals and admirals in command were as a rule outside the economic struggle. They were just about as far removed from the prize at stake as the policeman guarding the jeweller's shop. They got their allotted pay and possibly a supplementary gratuity in recognition of exceptional services, but neither the pay nor the gratuity bore any relation to the riches for which the conflict was fought out.

Sometimes the commanders of expeditions overseas were rewarded indirectly by being given a place on the board of some colonial company, a method already in existence in the seventeenth and eighteenth centuries, of which Duguay-Trouin provides an example. Two centuries after him we find the colonial generals of Kaiser William II holding directorship in German plantations in Africa. But these posts were as a rule not very lucrative. On the other hand, young officers occasionally succeeded in making a fortune by retiring early from the service to make use of the experience they had gained in some colonial campaign. This type of career has been most common among the Belgians and Dutch. In such cases, however, the fortunes acquired would hardly be counted as profits of war.

A closer connection between soldiering and business may occasionally be found in the army and navy of the United States. It has sometimes happened that officers in command of troops in occupation of

Central American territories have been employed in the financial and commercial administrations of the country. This has been the case in the republics of Haiti and San Domingo. Such positions have not, it is true, themselves brought in a fortune, but they have given the kind of opportunity which every American desires, opening the doors to big business and rapid wealth.

The most interesting example of this kind is provided by the career of the American, Frank Steinhart. The Spanish-American War gave him his opportunity, and he rose from non-commissioned officer to being the richest man in Cuba. Born in Germany, Steinhart was still a young man when he joined the American army. He quickly gained promotion, and in 1898 he was chief-of-staff to General Brook when he went to Porto Rico and later to Cuba. Installed in Havana, Steinhart was occupied with the administration of justice under the general's rule. His position was of great importance: every petition and every suit passed through his office. Though not holding a high rank, he was soon regarded as the greatest specialist on Cuban questions in the American army. He was called to the ministry of war in Washington, but before long returned to Havana as special agent of the department of war, which meant, during the military occupation, that he held the most influential post in the island. The occupation over, Steinhart continued to fulfil much the same functions as before, with only this difference, that his title was now Consul-General of the United States.

The end of the Spanish-American War marked the beginning of a period of violent internecine struggles. On the instance of Steinhart, Washington sent a new expeditionary corps in 1906, and it was under the protection of American guns that the economic conquest of this rich country was finally accomplished. Then Steinhart's harvest began. He was put by General Magoon onto the most lucrative enterprise in the country, the development of electricity. From this beginning issued later the most important electricity concern in Cuba, at the head of which was Frank Steinhart, a large shareholder and its president.

Around this parent company a whole series of enterprises soon grew up, all of them more or less under the financial control of Steinhart. He became president of the chief insurance companies of Cuba and took under his aegis the largest brewery in the island. He secured the most valuable lands, undertook transport, and owned shipyards. The casino of Havana was his, and as agent of the New York bankers, Speyer & Co., he arranged big loans for local agriculture. No small part of the thousand and a quarter million dollars which the Americans invested in Cuba passed through his hands. His fortune was at one time estimated to run into tens of millions. Although we cannot consider it as due directly to profits from war, it must be admitted that the sergeant would never have become multimillionaire without the war and his service in the military administration of the island.

*The Gratuities of the European War*

Certain exceptional cases, however, do not alter the fact that the age of imperialism has brought small reward to professional soldiers. In spite of all the admiration accorded to victorious generals, public opinion is opposed to their making profits out of war. Like any other employee of the State, the general is entitled to have his old age provided for. Beyond that, he is to be rewarded with honours, not with money—that is what public morality now thinks proper.

The last war confirmed this tendency. Even in receiving distinctions, the generals were treated less handsomely than in previous wars. In the Austrian army, and later in the British, titles were still conferred on a few military leaders. But the Kaiser refrained; though, to enhance his own dignity, he always greatly enjoyed conferring honours. The German generals were no longer made counts or princes in reward for military successes. Ludendorff remained a commoner, even after the conclusion of peace with Russia. The Kaiser seemed anxious to prove his respect for democracy in refraining from any revival of a warlike aristocracy. He abstained from raising his great generals to a status that might remove them further from the ranks of the people's army, and these generals were the most potent military figures which the last war produced.

The same influence was at work, particularly in those countries where class antagonism was acute, to

prevent the granting to generals of castles, estates or cash gratuities. Only in Great Britain the old system was maintained. The war was still going on when Admiral Jellicoe was made a peer and granted £50,000. When the war was over, a whole series of grants was made. Haig got £100,000, Allenby £50,000, Plumer £30,000, Robertson and Birdwood £10,000 each. Each grant was accompanied by a title. Nevertheless, compared to former times, rewards of this kind even in England had sensibly diminished. And in contrast to what had happened formerly, no statesman received a grant.

In certain cases people were recompensed by recourse to special funds. Thus Lloyd George, on his retirement from the government, was awarded an annuity of £2000 from the Carnegie Foundation. And a few years after the war, £300,000 was raised by subscription to enable Haig to reacquire his family's ancestral home of Bemersyde.

Strange as it may seem, the largest of these retrospective rewards was on the side not of the victors, but of the vanquished, the recipient being Hindenburg. We might hesitate to include among the profits of war the honour done nine years after the war to the old general, now president of the republic, on the occasion of his eightieth birthday. We must, all the same, remember that his tardy political career was due entirely to the popularity he had gained as commander-in-chief. The *Hindenburg Spende*, the public subscription then raised for him, amounted to 7 million marks. At his express wish the greater part of it was devoted to the victims of the war. Part of

it, however, was set aside so that he could buy back for his family its old estate of Neudeck in East Prussia. In receiving this personal gift, Hindenburg stressed the fact that it was private property in having it entered on the land registry in the name of his son.

This donation led to unexpected consequences. To get the estate once more in repair and to start farming it turned out to be more costly than the Hindenburg family could afford. In the autumn of 1932, a further half-million marks had to be raised by a new collection to provide a supplementary donation to the family. The Neudeck estate was also mixed in the scandal of the *Osthilfe*, a fund in aid of the eastern provinces of the Reich. There seems to have been something rather questionable in the administration of this government subvention from which the *junkers* to the east of the Elbe drew considerable benefits.

Public opinion was decidedly critical of what had been going on among the circle of friends and neighbours of the Hindenburgs. The Reichstag appointed a commission of enquiry. This was to be the last action of a German parliament. The debates on this subject, touching as they did directly or indirectly on the Hindenburg estate, seem from all that is known to have supplied one of the reasons why the president dismissed Schleicher and called on Hitler and Hugenberg to form a government. Thus, far beyond its financial importance, this last of the gratuities to the generals of the last war had political repercussions of no little historical moment.

*Decline of Military Profits*

Considering only the monetary value of the soldiers' profits from the last war, their insignificance is evident. In proportion to the colossal expenditure on the war, the sums that reached a few generals' pockets were microscopic. In classical times, it had been the general who came first whenever there were spoils to divide. In fact, the share to the army and that to the State depended to a great extent on his goodwill, and sometimes it was the lesser part of the plunder which he passed on. In the Middle Ages and during the centuries of absolute monarchy, the plunder reserved for victorious generals was always enough to range them among the richest men of their age. It is only in the last hundred years that things have changed, so that nowadays of successful generals only the most favoured win anything that could remotely be called a fortune, while more often they have in the end nothing but their pension on which they can live in comfort but by no means in luxury.

As we have seen, three factors have contributed to the decline of military profits of war. The first is the disappearance of the kind of war whose immediate object is loot. That does not mean that plunder has entirely ceased to exist. But military technique tends more and more to reduce it, since its aim is to destroy rather than to capture. In the last war, not only on the Western front, but also in other theatres of war, armies remained for years facing each other in regions that were so thoroughly devastated that with the best will in the world there was practically nothing

for advancing troops to take. When populated regions were evacuated, it was done so systematically that there was little wealth to be exacted from the people. And with the rapid development of aerial warfare it must be assumed that another war would be even more destructive than the last.

The second factor is the growth of bureaucracy in the organization of warfare, and this factor is of still greater moment than the first in limiting a soldier's opportunities. The economic freedom which a general had enjoyed in the days of the soldiers of fortune, has gone entirely. Except perhaps in some out-of-the-way colonial post, a commanding officer is absolutely bound by proper military routine in all monetary matters. It is extremely difficult to-day for a general to take any steps that might in any way further his economic interests.

The third factor arises neither from military technique nor from the growth of administration, but is of ethical origin. Since military service has become compulsory so that all capable of bearing arms are expected to risk their lives, it is regarded by the mass of people as inadmissible that military leaders should be in a position to turn war to their own pecuniary advantage.

Like the engineer in Soviet Russia, the general is now treated as a specialist. He is rewarded with suitable honours and at the most he gets some bonus in recognition of his special services, but this bonus bears no relation to the immense economic factors which lie behind the struggle. He may be satisfied with the fame he has won and the place in history

which it will give him, or he may make use of it in the acquisition of political power as has been done in Germany, in Poland and in Turkey. But the moment he seeks to convert his military accomplishments into hard cash, he will come into conflict with public opinion. The general as a war-profiteer: that is a conception which accords ill with twentieth-century opinion. And there is no reason to suppose that this popular conception will get weaker as the century advances.

## CHAPTER II

### THE FINANCIERS

#### *Money and Power*

It is the business of the banker to act as an intermediary between those who have at their disposal a reserve of money and those who stand in need of it. The greater the latter's need, the more they must pay for credit, not only to its ultimate provider, but also to the intermediary. And as in time of war rulers and governments are in particular need of money, exceptional opportunities are enjoyed by the banker. That in short is the reason why for the last five hundred years there has been no war which has not been the occasion of great financial profits, and sometimes great financial losses.

But a reservation must be made at this point. Although often called bankers, those who financed wars in the pre-capitalist period, and particularly the Italians whose activities extended from the Near East to England, were not bankers in the modern sense of the word. Unlike modern bankers who operate with money deposited with them by their clients, they generally worked with the fortune which they themselves had amassed or inherited, and which they lent at a high rate of interest. Thus those who risked the financing of a war were for the most part

already very rich, and this was the case down to the seventeenth century.

When they agreed to finance a war, these rich lenders did not, however, always attach great importance to the rate of interest. In this respect they often showed the greatest compliance to their august clients. But in return they secured for themselves privileges which could be turned to industrial or commercial profit, such as mining concessions, monopolies of sale or importation, etc. Sometimes even they were given the right to appropriate certain taxes as a guarantee of their loans. So though the loan itself carried a very real risk and often did not bring in much interest, the indirect profits were very considerable and the lenders' leniency well rewarded.

But the royal borrowers were not in love with this method of financing their wars, for it proved in the end very onerous, the receipts of the treasury being heavily encumbered by these privileges. Besides, Sovereigns were of the opinion that they ought to be able to create money without recourse to anybody, otherwise their power could not be called absolute. On the other hand their need of money was constantly increasing. In fact, even during the short periods of peace which separated their wars, the upkeep of their permanent armies required more than could be exacted from the people even by the most ruthless fiscal methods. The saying of the Austrian General Montecuccoli, that to make war one needed money, more money, and still more money, became the anxious watchword which echoed through all the Courts of Europe.

From the second half of the seventeenth century the ingenuity of statesmen was strained to contrive new methods of raising money for the State. There were no means too ruthless, too daring or too fantastic to be considered at least worth trying. Governments plunged into commerce and industry, producing, buying and selling on their own account, and putting into wholesale practice what to-day would be called State Capitalism. But this did not suffice to meet the expenses of armies and navies whose demands, even in peace-time, absorbed two-thirds or three-quarters of the total revenue. Accordingly banks came to be established whose special function it was to provide the State with loans to finance armaments and wars.

From this point to the actual creation of money was only a step, and it was not long before it was taken. The traditional method, which consisted in reducing the content of precious metal in the coinage and thus husbanding reserves, was still often applied, but those with more advanced ideas regarded it as obsolete and illogical. So the Scotsman John Law proposed a far more efficacious means. His suggestion was that notes should be printed guaranteed by an assumed colonial source of wealth; these notes were to be declared money, and at a blow the treasury would be rich. At first this audacious scheme was only executed in Paris and in London. At the same time, in spite of previous failures, efforts were being made in a dozen European capitals to manufacture gold by chemical process. One of the alchemists at work, the imposter Ruggiero, not only obtained from

the Prince Elector Max-Emmanuel of Bavaria an advance of several hundred thousand florins, but he rapidly attained high rank in the military hierarchy.

The secret processes which were to make gold or silver proved ineffectual, so the disillusioned rulers were obliged in the end to turn to the private bankers for the credits they needed. But now these dealings took on a different character. To be banker to the Sovereign was no longer a privilege reserved to men of great wealth. Many rulers preferred on the contrary to deal with small money changers or brokers, or other agents of no particular fortune. In fact the more insignificant and compliant the latter were, the more favour did they find in the eyes of their rulers, so long as they knew their business and were able to find money or matter where nor how.

In this way the Court Jew came into being, a man who still showed all the servility of the Ghetto and who was ready to put his hand to any business. In most cases the Sovereign was not their client but their employer. Their duty was to undertake all those miscellaneous transactions, for the most part commercial in nature, which aimed at supplementing the official revenue. If by chance there was a surplus in hand, it was they who were charged with its investment. Often these agents attached to the person of the Sovereign became influential counsellors. It might even happen that they were entrusted with the official administration of the finances of the State, without, however, their giving up their other business activities. Their income consisted in the main of commissions.

For a century and a half this sort of bankers, or more precisely agents of the Court, played a leading part in the financing of wars. Most of them, provided they did not fall into disgrace, succeeded in making a substantial fortune, becoming in the end lenders themselves, and in that rôle they might even lend money to the Crown. Among them were some—like the Jew Süss Oppenheimer, financial counsellor to Charles Alexander of Würtemberg—whose picturesque character or tragic destiny has won a place in history. But not one of them was distinguished by really immense wealth or by any outstanding economic successes.

It was only in the time of Napoleon, when wars and their finances had acquired altogether new proportions, that a family descended from these small Court brokers reached a position which made it in the eyes of succeeding generations the symbol of high finance. This was the family of Rothschild. The profits accumulated during the Napoleonic wars enabled the Rothschilds to build up an immense fortune, the largest which the world had so far known.

The Rothschilds created a new type of Court or State banker. As in the Renaissance, the great financier became a powerful factor in national and international affairs. The great banker is no longer a hired agent working on commission. In his relations to the State he can now be regarded more as an ally or partner. He acts in complete independence and in the last resort it is often his decision that counts for most. On his will depends in great measure the outbreak and the duration of a war, as well as the

conditions of the ensuing peace. This state of affairs lasted until the second half of the nineteenth century, when the private bankers began to be supplanted by the great joint-stock banks. But this change, when it finally came, was more formal than real, for already the private bankers were important not so much by virtue of their own fortune but rather of the financial organization under their control.

The last war proved abundantly that in a really serious situation, a single great bank, to say nothing of a private banker, was quite unable to satisfy the colossal demand for money by the State. Once more, though under entirely different social conditions, the same point was arrived at as was reached by the rulers at the end of the seventeenth century. The State itself must create or raise the money it needed for the war. Under various names—treasury bonds, currency notes, war loans, etc.—vast sums were brought into being whose sole object was to pay for war material. Credits of this size could not possibly be obtained from a limited circle of capitalists, as had been done in former times when banks or bankers made their loans for the prosecution of a war. Now all sources of money must be tapped, every class of society must contribute. From time to time, it is true, recourse was had to the more traditional procedure, and a loan was floated by the mediation of a group of banks, but for the most part it is the State that is its own banker. The banks no longer play the part played by the Court bankers of the seventeenth and eighteenth centuries.

Only America provided an exception. Morgan

was still the grand all-powerful financier in the old style, and, like the Rothschilds a century before, rendered the most valuable services to the Allies. But it must be noted that Morgan only enjoyed this plenitude of power so long as the United States remained neutral. As soon as they entered the war, the government was obliged to step in.

That is the changing picture which history reveals concerning the financing of wars. At times bankers, rolling in wealth, rose to dignity and power, at other moments we see them crawling in servile fashion through the Courts of Europe. And then again we see them recede into the background.

### *The Florentine Bankers*

Let us look a little more closely at the ramifications of this drama. Right at the start we hear the rumblings of a formidable crash. One of the first great events of capitalist economics was the Florentine catastrophe of 1345. The banking houses of Bardi and Peruzzi had lent sums to the English Crown which in the end reached an enormous figure, the money being borrowed for war purposes. When, during the early years of the Hundred Years War, Edward III suspended payments, the Florentines were faced with an irrecoverable debt of 1,355,000 gold florins, which is about £4,000,000 in the money of to-day. They were ruined, and in their fall they brought with them a number of commercial houses in Florence. Those who might be distressed by this story may console themselves by trying to answer

this question: for such a huge sum to have been lost, how much must the Florentine financiers have previously made from their loans to the Kings of Naples, France and England?

Compared to these immense transactions the operations of the Medicis, the most famous bankers of Italy, seem relatively small. At the beginning of the fifteenth century they financed with 60,000 florins the ill-fated campaign undertaken by Rupert, King of the Palatinate, against Milan; but this loan was guaranteed by the town of Florence. Soon after, they entered into financial relations with the Pope, becoming the latter's bankers both in peace and war. Later, two members of this family occupied the Papacy. The Papacy, which was at this period the greatest financial power in the world, entrusted the House of Medici with the management of some of its property, but for the most part had recourse to it for loans. The debt of the Papal States to this Florentine bank amounted at times to 250,000 gold florins. According to the custom of the times, the debts were generally guaranteed by the receipts from certain taxes, though sometimes commercial or mining concessions were granted to the lenders.

Successive generations of the Medicis did business with the King of England and the Duke of Burgundy. But the Florentines were not happy in their dealings with distant countries. Edward IV of England cost the Medicis over 50,000 gold florins. But they were more prudent in placing their capital than the houses of Bardi or Peruzzi had been, and a single loss did not suffice to ruin them. For several generations the

fortune of the Medicis kept a surprising stability for political bankers. The great members of this family during the fifteenth century left each of them a fortune of about 250,000 florins, which represents about £650,000 in English currency to-day. Moreover, more than double this sum had been spent by them in the erection of public buildings and in charitable works.

### *Jacques Cœur*

The commercial operations and war loans effected by the great French banker, Jacques Cœur, the minister of finance under Charles VII, were on a much more imposing scale. Jacques Cœur had acquired his immense fortune chiefly in trade with the East—his organization involved 300 branch offices abroad—and in managing the royal mint. We have no basis on which we could calculate his wealth, but we know that he was in a position to place very large sums at the disposal of Charles VII. In 1449 he lent the King 200,000 crowns to help him reconquer Normandy, and 60,000 *livres* (over £100,000) to repurchase Cherbourg.<sup>1</sup>

At the same time he was banker to the aristocracy and to the courtesans. And it was the inability of his noble debtors to pay him what they owed that brought about his fall. In the course of a lawsuit brought against him he was accused of having exported capital, of having financed infidels in their wars with Christian powers, and of having furnished them with arms. His property was confiscated. He

<sup>1</sup> Edmond Jongleux, *Jacques Cœur*. Bourges, undated, p. 19.

himself was condemned to three years' imprisonment, but he managed to escape, and fled abroad. Rehabilitated by the Pope, he ended in the Island of Chio in 1456 commanding a naval expedition sent by the Pope against the Turks. He was certainly no longer, as in the days of his glory, the richest man in France, but he does not seem to have been altogether impoverished. The major part of his confiscated fortune was restored to his descendants by Louis XI.

### *The Power of the Fuggers*

Two generations later a German counterpart to Jacques Cœur was to be found in the person of Jacob Fugger of Augsburg. Like his forerunner, Fugger was the founder of a great international commercial house which had dealings with half the world. As was natural after the discovery of America, the eyes of merchants turned more towards the West than the East. Fugger too had a lucrative post in managing a mint, that of the Pope, and, like Jacques Cœur, he was a Court banker and a great financer of wars.

The point of departure for Jacob Fugger's career as a political financier was furnished by the unfortunate campaign of the Archduke Sigismund of Tyrol against Venice. The archduke was beaten and was due to pay a considerable indemnity, for which, however, he had not sufficient funds. Fugger, who till then had been at the head of an important concern, but was by no means a great figure in finance, undertook to settle the matter. In return he was given copper and silver mines in the Tyrol.

The metal they produced was sold by him in Venice, Milan and Rome, chiefly for armaments, and the profits he made were such that he was soon in a position to offer more substantial loans. The deal proved much less profitable to the Tyrolese, but they turned, not on Fugger, but on their ruler, whom they held responsible for their misfortunes. They banished him and offered the throne to the Emperor's son. The latter, on his father's death in 1493, became the Emperor Maximilian I.

Their new master, both enterprising and warlike, extorted from them far more money than his predecessor. But as his faithful subjects were quite unable to provide all he needed, Fugger came on the scene once more, lending him considerable sums. The money thus provided enabled him to replace his old troops with mercenaries and to furnish them with firearms. Fugger's support was assured him in his struggle with Switzerland, Venice and France. And for all this Fugger was able to recoup himself in exploiting the Tyrolese mines, which in the course of a few years brought him in 400,000 florins.

The prestige acquired by Fugger as banker to the Emperor and the success of his branches in the North of Italy brought him to Rome. The quarrelsome Pope Julius II, who himself commanded the Papal army, was constantly in need of money to arm his troops as well as for his building activities, and Fugger took the opportunity to do business with him. Fugger's bank in Rome advanced money for the recruitment of the Swiss Guards and for the equipment of the Papal troops. Under the next Pope,

Leo X, a Medici, Fugger's relations with the Papacy became closer still. He leased the Papal mint and thus established himself firmly as one of the official bankers to the Church.

Banker at the same time to the Emperor and to the Pope, Fugger was destined to play a part in two critical events in the history of the world. Fugger was the financier who organized the sale of indulgences. This remission of sins in exchange for cash had been condemned by Luther in his 95 theses, the publication of which was the starting-point of the Reformation. Two years later he financed the election to the Imperial throne of Charles IV, the young King of Spain, whose opponent was Francis I of France. To win the election the votes of each of the seven Electors had to be bought. The cost amounted to 852,000 florins, of which Fugger provided 543,000, that is, nearly £2,000,000.

The new Emperor, with the title now of Charles V, at once proved himself, contrary to what had been expected, a Sovereign endowed with eminent qualities both as statesman and military leader, but, like the majority of great rulers, he was not an agreeable debtor. Fugger had to pester him for years before he got his loan repaid, though in the end he did, with handsome profits and important concessions in Spain.<sup>1</sup>

When this debt was settled, Fugger returned once more to the rôle he had filled in the time of the Emperor Maximilian, financing all the military opera-

<sup>1</sup> E. Reinhardt, *Jakob Fugger, der Reiche aus Augsburg*. Berlin 1926, p. 129.

tions of Charles V. He lent to the latter—and this time he certainly acted from conviction—the sums needed for suppressing the peasant risings. He financed the defence of the Empire against the Turks, to whom he had not long before supplied war material. But above all he was the Emperor's banker in the war against France. The great victory of the German and Spanish troops at Pavia, where Francis I was taken prisoner, would certainly not have been possible without the money and war material which Fugger had supplied. As a guarantee of what was now owed him, the fiscal revenue of Naples was pledged to him, Naples at that time belonging to Spain.

Since the days of ancient Rome down to the beginning of the nineteenth century, that is, until the rise of the Rothschilds, no other family engaged in the financing of war and politics amassed a fortune equal to that of the Fuggers. Between 1511 and 1527 alone, the period of the Fuggers' most intensive activity in politics, their fortune increased tenfold, from 200,000 to 2,000,000 florins, the latter sum being equivalent to over £6,500,000. Of this, 750,000 florins belonged to Jacob Fugger the head of the business, the rest to other members of the family. The next generation saw this fortune increase further, reaching in 1546 the sum of 4,700,000 florins, which was to be its culminating point.

Like most fortunes made by political means, that of the Fuggers declined as a result of political changes. In the second half of the sixteenth century, the decay of Spain and the two successive bankruptcies of its government inflicted very severe losses on this house.

On the other hand attempts to extend business in Eastern Europe, particularly in Hungary, met with rebuffs. The Fuggers' power slipped gradually away, and by the time of the Thirty Years War it had dwindled to nothing. All that was now left them was to retire to their rural estates, which they had managed to conserve.

About this time another great banking house went under, that of Welser of Augsburg, which after the Fuggers' was the greatest financial and commercial enterprise in Germany. This firm too had taken part in financing the election of Charles V, and subsequently lent the Emperor considerable sums for the furtherance of his military aims. It was given in exchange commercial and colonial concessions in America, particularly in Venezuela. But the career of the Welser family was less fortunate than that of the Fuggers, for the last member died in prison.

#### *Foundation of the Bank of England*

The decline of the great financial dynasties of the Renaissance does not mean that great commercial fortunes ceased to play a part in the financing of war. But the new commercial magnates which came to the fore, sometimes in Holland, sometimes in England, preferred to undertake military operations on their own account, either on sea or in distant countries. They founded colonial companies, which were given the privilege to make war in a specified area. The most brilliant success achieved by any commercial undertaking in the seventeenth century was the

capture of the Spanish silver fleet by the Dutch West India Company. A cargo of 15 million florins fell into the Dutchmen's hands, and a dividend of 50% was promptly paid to the shareholders. Whatever had been the profits gained by financing the wars of kings and princes they were not to be compared with this.

On the other hand the financial condition of warring states tended to become more and more precarious. So, to enlist the support of capitalists in European wars, governments adopted the methods already applied to colonial expeditions, floating companies of shareholders. The most lasting of these institutions was the Bank of England, founded in 1694. Its object at first was nothing else than to furnish credits for war. In order to bring to a successful conclusion the war against France, the government sought to tempt capitalists to lend to the State a sum of £1,200,000 at an interest of 8%. But this rate of interest alone was not tempting enough to unloose people's purse-strings, and the government had to offer additional incitement.

What was suggested was the formation of a company with a capital of £1,200,000 to found a bank. The capital raised was to be placed at the disposal of the State at 8% interest. At the same time the bank was to have the right to print and issue paper notes to an equivalent amount, which notes were to be officially recognized as money. Further, the bank was authorized to undertake all kinds of banking business, thus offering the shareholders the prospect of considerable profit. It was essential for the govern-

ment to be provided with gold and silver currency for the payment of its troops abroad. For internal needs paper money could be used.

The author of this famous plan was a Scotsman called William Paterson, a clever adventurer who had been for a long time in the West Indies, whether as pirate or missionary no one could be quite sure. Certainly he inspired less confidence than his compatriot John Law; all the same, Paterson's plan was sound.

In itself paper money was by no means new to the English. For a long time already the jewellers of Lombard Street had been giving gold and silver certificates as receipts for metal left in their custody for safe keeping. Little by little these certificates had acquired the character of paper money. But the notes now issued by the newly founded bank were covered, contrary to what was officially given out, by only an insignificant reserve of metal. There might even be no cover at all, for the specie which formed the initial capital of the bank was, as we have said, at the disposal of the government. The day when the goldsmiths, who saw in the new institution a formidable competitor, organized a run on the bank, presenting for redemption a large quantity of notes, it was no longer possible to conceal how utterly inadequate the reserve was.

But in spite of its obvious shortcomings, Paterson's plan was welcomed. Forty subscribers at once took shares to the value of half a million pounds, and in ten days the whole capital was raised. Results were at first disappointing. Bank-notes suffered a depre-

ciation of 20% below the value of coin, and the shares fell considerably. On the other hand the transaction did not suffice for the government's needs. The latter had soon to seek further sources of credit and for the first time in financial history tried the issue of treasury bonds. It was only towards the end of the War of Spanish Succession in 1711 that the Bank of England was able to increase its capital to £2,200,000, thus putting a further million at the disposal of the State.

Although in the end their investment proved satisfactory, the first shareholders of the Bank of England did not make much out of the war. Nor did the establishment of the bank bring a fortune to the author of the scheme. The latter, who of course had embarked on other speculative ventures, died in 1718, leaving barely £10,000.

### *Manipulating the Currency*

In the formation of big companies at the end of the seventeenth century and the beginning of the eighteenth, we find already the two characteristic elements of modern methods for the financing of war: the creation of supplementary means of payment in the form of paper money and the participation in government loans of the largest possible number of people. But the art of the creation of money which the Scotsmen Paterson and Law had been teaching to the world was not after all so easy to learn. Some of these companies—the *Compagnie des Indes* in France and the South Sea Company in

England—caused widespread ruin about 1720, and both governments and investors were for long anxious not to risk further experiences of this kind.

Apart from compulsory loans, which after all were only disguised forms of taxation, the number of genuine government loans raised up to the end of the seventeenth century was quite insignificant. The number of people willing to trust the State with their money was small. Thus, even in 1778, during the American War of Independence, when the English Government issued a public loan, they found only 240 subscribers. And a few years later it was regarded as sensational in the City of London when the government at a critical moment for the country—England being then simultaneously at war with the American colonies, France, Spain and Holland—tried once more a public loan and found this time over a thousand subscribers.

The system of paper money, too, continued to give trouble. During the war the usefulness of notes was very restricted. Soldiers insisted on being paid in specie. So in a time of crisis recourse had to be made to the older system of inflation, the debasement of the currency. A brilliant example of this was the financing of the Seven Years War by Frederick the Great. In 1757 he leased the mints of Dresden and Leipzig to the bankers Veitel Ephraïm and Daniel Itzig, authorizing them to make 20 thalers with the metal that had hitherto been used for 14. By the diminution by 40% of the metal content in the currency, the Prussian Government made between two and three million thalers a year, a

sum which covered nearly a quarter of the expenses of the war.

In the course of the years which followed, this method was applied even more ruthlessly. The mint of Brandenburg was also leased to Ephraïm and Itzig, who were this time authorized to make coin whose metal content was reduced by a good 50%. This debased coin was intended not only for internal use, but still more for use abroad. In this matter Ephraïm's firm seems to have exhibited remarkable prowess. At all events the bankers boasted—with possibly some exaggeration—of having amassed in enemy countries a hoard of 50 million good pieces of money in exchange for the depreciated pieces they themselves had struck.<sup>1</sup> In fact this traffic in money brought 6 million thalers a year into the Prussian treasury during the last years of the war without counting the very considerable profit netted by the bankers. The vigorous financial control exercised by Frederick, however, hindered the acquisition of enormous private fortunes, and the bankers Ephraïm and Itzig did not succeed in piling up immense wealth.

### *The Loans of the Landgrave of Hesse-Cassel*

If we enquire how the Rothschilds a generation later achieved a success incomparably greater than that achieved by any Court banker during the seventeenth and eighteenth centuries, we find that it was not due to financial genius alone. Indeed the old

<sup>1</sup> Max Maurenbrecher, *Die Hohenzollern-Legende*. Berlin, undated, vol. ii, p. 513.

Meyer Amschel, the founder of this house in Frankfort, was certainly no genius, and we shall look in vain through the lives of his five sons, including even that of Nathan Rothschild of London who was the most gifted and the most successful, for any great or original ideas such as those conceived by Paterson or Law.

It cannot, however, be said that the Rothschilds amassed their fortune by the sole means of speculation. They showed, it is true, great ability in taking advantage of the excellent opportunities for speculation offered by the upheavals of the Napoleonic era. But it is no less true that they were not really speculators by temperament. Unlike their contemporary Ouvrard, who made one of the biggest fortunes of the day in a few bold strokes, they were, although enterprising, prudent rather than audacious, and with a strong hoarding instinct. It is this character which has enabled them to accomplish the very rare feat of conserving a fortune for over a century. But it does not explain how they could in the short space of twenty years rise from their humble origin in the Ghetto to multimillionaires of international power, for neither the first million nor the first ten million were merely the reward of saving. They had to win them, and in doing so they had to take risks.

The Rothschilds' situation was fundamentally different from that occupied by other Court bankers. Their function too was that of Court Jew, but in quite another way to their predecessors. Ordinarily the bankers' function was to raise money for their Sovereign. For them it was just the opposite, for

they dealt with one of the very few princes in Europe who possessed a surplus of money which was available for lending to others. This was William IX, Landgrave of Hesse-Cassel, who possessed a greater fund of ready money than any other capitalist of his day.

The enormous fortune which this German prince sought continually to invest in profitable loans abroad had been derived in great measure from a special kind of war profits. The Landgraves of Hesse-Cassel, like some others of their kind, had carried on a very lucrative commerce from the end of the seventeenth century. They hired out their subjects as soldiers to one or other of the great powers, particularly to England, constantly in need of mercenaries for the protracted wars she was waging, and ready to pay a good price for well-built men.

The great-grandfather of William IX had in this way made a fortune of 12 million thalers, while his father, the Landgrave Frederick II, had done still better, making some 22 million by providing in all 16,992 of his subjects, who were shipped to England and then to the battlefields of North America. William IX continued the trade, and from the second year of his reign a further draft of soldiers to England brought him a revenue of 675,000 thalers.

Unlike his father, who had spent the bulk of these gains in erecting buildings and in keeping up a sumptuous court, William IX succeeded not only in conserving his fortune but in sensibly increasing it. The idea of using his immense wealth to extend his power does not seem to have occurred to him. On the contrary, so far as it was possible to a lender,

he seems to have been anxious to hide his fortune from the great powers and also from his many relations in other European Courts. Thus he made use of a number of bankers who invested his money, spreading it carefully amongst at least a dozen countries in the form of long- or short-term loans of 200,000 or 300,000 thalers at an interest of four or four and a half per cent.

The task of these intermediaries does not seem to have been easy. William IX was possessed by an almost insane mistrust for even the most devoted of those who worked for him, and he bargained for a half per cent of interest like the most grasping of usurers. Leaving aside their judgment of him in other respects, all contemporaries who had dealings with him were agreed on his sordid avarice. But however that may have been, to be banker to this man offered the prospect of becoming oneself a millionaire.

So Meyer Amschel Rothschild used all his perseverance to make business contact with the Landgrave. His beginnings were modest, starting with a humble request to be allowed to try to negotiate a loan of £1000. After much hesitation and enquiry a credit of £800 was finally allotted him. And as Rothschild settled the debt punctually and moreover paid a higher rate of interest than the other bankers, the sums confided to him grew larger and larger, until finally he had outdistanced all his rivals. Between 1801 and 1806 he arranged eleven important loans amounting in all to some 5 million florins (about £670,000). Seven of these loans went to

Denmark, but he also provided money to the Landgrave of Hesse-Darmstadt and to the Elector of Baden. He arranged the settlement of the old debts of the King of Prussia and those of the Tsar of Russia; all to the entire satisfaction of the august lender.

Rothschild invested part of the profits from these transactions in his own business, which he continued to run in Frankfort and which had considerably grown in importance since his third son Nathan had set up in Manchester with £20,000 given him by his father. Though the old Rothschild made himself out to be less rich than he really was, his fortune at this period must already have approached a million florins. The business done by him and his sons during the first decade of the Napoleonic period was, it is true, helped from time to time by military events, but it cannot be said that this first instalment of their great fortune was due directly to profits from war.

### *The War Dealings of Meyer Amschel Rothschild*

The Rothschilds' real dealings with war, and with them the enormous increase in their fortune, only began in 1806. This year brought two events of the greatest consequence to them. Firstly, the French marched into Cassel and banished the Landgrave, who had only recently become Elector, with the title of William I. Secondly, Napoleon established his Continental Blockade. As a result of these two events the Rothschilds, who hitherto had held no political opinions, joined the camp of Napoleon's

enemies. And though their enmity to him was for many years concealed, they were by no means the least redoubtable of his opponents.

It was the financial affairs of the Elector of Hesse-Cassel that had more or less forced the latter to range himself among Napoleon's enemies. William was not animated by any political passions, he was simply a crowned financier. And he found himself in the position of having lent the bulk of his money to countries that were at war with Napoleon. A considerable part had been placed in England, the Austrian Emperor was his debtor, and he had lately made a big loan to Prussia. If he had ranged himself on Napoleon's side, these moneys would naturally have been lost. Besides, he under-estimated the power of resistance and the consequent duration of the Napoleonic régime.

It was only when the French advance posts were close to his frontier that William realized his mistake. Having erred in his calculations he wanted to patch up a compromise as quickly as possible, and one that would protect him on all sides, while leaving every channel open for the future. But he was too late. In vain he had "Neutral Country" written up at every frontier post. Napoleon was not to be duped by such an obvious manœuvre. The only course left was flight, and William fled through the last gate of the town to be left open, that leading to the North.

Once his personal security was assured, the next thing was to save his fortune. There was no time for an organized evacuation of the capital. But all

that was transportable was stuffed into cases, hundreds of which were hurried to the cellars of the Wilhelms-höhe and other castles in the neighbourhood of Cassel. Gold and jewels and *objets d'art* were taken, also securities, account books, and the most important archives. In the middle of the night five portfolios containing bills of exchange, etc., worth a million and a half thalers, were carried to the Austrian Minister, much to his embarrassment, with a request that he should take charge of them. The excess of William's precautions, however, ended by exciting suspicion. The French began to search, and then to find.

According to his account books, the movable property of the Elector amounted at this period to 26 million thalers (about £6,700,000), a sum much larger than Napoleon's personal fortune at any period of his reign. Having unearthed 11 million thalers, the French Governor, Lagrange, considered the spoils thus falling into the hands of his Emperor to be sufficient and began to think of himself. The ministers of Hesse-Cassel slipped nearly a million francs into his hands, and in return Lagrange suspended the search and even handed back some of the documents.

Those faithful to William were then faced with the hardest part of their task, that of smuggling out of the occupied territory the securities which had escaped confiscation. For even in exile their always mistrustful master wanted to have his property with him, first in Denmark and later in Bohemia. Accordingly voluminous coffers full of bonds worth millions of thalers, as well as cases of jewels and plate, were

sent off on a long and dangerous journey in zigzags across Germany.

This formidable transport of wealth soon gave rise to romantic legends of which the principal hero was Meyer Amschel Rothschild, such as the story according to which the Elector before his flight gave him personally a lot of securities, which he concealed in wine barrels buried in his garden during the whole of the occupation. As a matter of fact, Rothschild's activities were more ordinary and the papers which were given him to keep in his cellar were among the least important.<sup>1</sup> All the same he undertook, though already in his sixties, several arduous journeys to visit the Elector, he forwarded letters and transmitted confidential messages, and enabled him even in exile to invest the money saved from the disaster as profitably as ever.

The old Rothschild remained loyal to the Elector, even when in 1808 Napoleon put an end to his rule in the following laconic terms: "The house of Hesse-Cassel has for a number of years sold its subjects to England. Thanks to that the Elector has amassed riches. It is this unscrupulous procedure which has provoked the downfall of his line. The Elector has ceased to reign."

But the troubles and anxieties suffered by the Elector did not make him more generous. He still enjoyed, thanks largely to Rothschild, an income of 750,000 florins a year. But he was niggard to the extreme in the payment of commissions and had no

<sup>1</sup> C. W. Berghoeff, *Meyer Amschel Rothschild*. 3rd ed. Frankfort 1924, p. 70 *et seq.*

idea of rewarding even the most loyal of his servants. Years passed before he could make up his mind to repay sums of money which had been advanced to him.

Nevertheless his dealings with the Elector were of the greatest help to Rothschild, for in a time of general penury they assured sufficient capital to his bank in Frankfort. It was always easy for Rothschild to make a handsome profit in lending the money entrusted to him.

### *The Five Frankfort Brothers*

While Meyer Amschel and his eldest sons were using their ingenuity to overcome the barriers erected by Napoleon, Nathan Rothschild was similarly engaged in the West of Europe. His efforts were more deliberately and directly aimed against Napoleon and in favour of England, where he became naturalized in 1804. Making use of his experience gained in Manchester, centre of the textile industry, he directed from London a big trade with the Continent, particularly with Frankfort. He exported not only English cloth, but sugar, coffee, indigo and other products. High profits attended these operations, but each delivery demanded consummate resource in shifts and subterfuges of all kinds; for during the Continental Blockade practically all exports to the Continent were regarded by France as contraband.

Following his father, Nathan soon enlarged his business to include finance. Financial dealings, still more than trade, were subject to war restrictions,

and great precautions were needed in dealing with foreign countries. When Napoleon in 1810 somewhat relaxed the Continental Blockade, Nathan Rothschild seized the opportunity offered to extend his financial business.

Very lucrative business was provided by the transfer of money to the English army in Spain and Portugal, where Wellington was beset with grave difficulties. All the efforts of the English Government to send him money either by sea or overland through France, were in vain, and the government ended by leaving him to fend for himself. Wellington found himself obliged to draw bills on the English Government which Spanish or Italian bankers would only discount on very harsh terms. At this point Nathan Rothschild intervened. He was able to offer Wellington very much better terms, even while making a very good profit for himself. To get money to Wellington, considerable organization was necessary. Rothschild got in touch with shipowners and carriers, who got the money in specie to Paris. Further stages in the journey were concealed behind a whole series of agents. In fact the details of this transport remain unknown to this day, the most recent studies of the Rothschilds furnishing only vague hypotheses. But the money reached Wellington punctually and rendered him inestimable service.

For these complicated transactions, Nathan Rothschild was assisted by his youngest brother James, who was then working in France and who was the founder of the French branch of the family. James had come to Paris in 1811 at the age of 19, provided

with excellent recommendations, and he was immediately received at the ministry of finance. He did not conceal the fact that he had come to France with the object of causing English money to flow there, but it went without saying that he did nothing which might betray its ultimate destination and use.

In Paris, where money was very scarce, the activities of this young man from Frankfort gave rise to great satisfaction. Even Mollien, the intelligent minister of finance, allowed this young Rothschild to lead him by the nose. At one moment the police became suspicious and advised his arrest.<sup>1</sup> But Mollien intervened with the assurance that the Rothschilds' activities could only benefit France, so the brothers pursued their trade unmolested. From England, Nathan shipped the money, while James, generally to be found in some port on the north coast of France, took over responsibility for its further transport. Thus Mollien was able with great satisfaction to inform Napoleon that in a single month the Rothschilds had transferred 100,000 guineas from England to France.

The profitable business which these two brothers were doing finally attracted the attention of the English authorities. Harries, who was superintending supplies to Wellington's army, sent for Nathan Rothschild to sound him. With absolute frankness the latter exposed the nature of his operations, and in a manner so persuasive that the outcome of the

<sup>1</sup> Conte Corti, *Der Aufstieg des Hauses Rothschild*. Leipzig 1927, p. 132.

investigation was to establish permanent financial relations between these two men. Harries now entrusted to Rothschild the consignment of government monies to Spain, and the Rothschilds' business became more profitable than ever. Nathan had just bought a large quantity of Indian gold, which he intended at his own risk to send to Spain. He could now, like the good patriot he was, complacently hand it over to the government and then receive a handsome commission for sending it to Wellington by the same channels as before, but at the government's risk.

During the last period of the Napoleonic wars the Rothschild brothers (the father having died in 1812) acquired a financial power of some international importance, thanks to their various profits from the wars, but above all to the relations between Nathan and the English treasury. Nearly half of the subsidies amounting to £20,000,000 which the Allies received from England passed through their hands, and although they contented themselves with relatively small commissions, the sums they netted were considerable. The fluctuations in the value of the pound were also an appreciable source of profit.

The Rothschilds tried to make use of their political connections to influence the financial administration in Vienna and get into close business relations with the Emperor of Austria. For some time their efforts were in vain. The Prussian Government on the other hand welcomed the financial assistance of Nathan Rothschild, who at a particularly critical moment, during the Hundred Days, offered a loan

of £200,000. The brothers in Frankfort supplied a further £150,000, so that the final blow delivered by Blücher was paid for by Rothschild money.

### *Financiers v. Napoleon*

Considering the services which the Rothschilds rendered to the Allies, particularly to the English, in their struggle with Napoleon, it seems astonishing that the latter, great organizer that he was, did not secure the support of a financial partner worthy of him. In France there was certainly no lack of opportunities nor of able financiers. During the early days of Napoleon's rule the cleverest of these financiers, Gabriel-Julien Ouvrard, made overtures to secure the post of banker to the State. But the First Consul rejected the advances of this naval contractor and *profiteur millionnaire*. In fact a little later he ordered an enquiry into Ouvrard's dealings and had him put in prison. Under the Empire the same procedure was followed on several occasions both against Ouvrard and other financiers.

It has been suggested that the animosity of Napoleon against the most daring financier of the day was due to personal motives. Later, after Napoleon's marriage with Josephine, who was always in need of money, Ouvrard lent her secretly, while her husband was away on the Egyptian campaign, the money she wanted for the purchase of the Château de Malmaison, and was certainly useful to her on other similar occasions.<sup>1</sup> Ouvrard was indiscreet enough on the

<sup>1</sup> Otto Wolff, *Die Geschäfte des Herrn Ouvrard*. Frankfort 1932, p. 85.

first opportunity to call Napoleon's attention to these little services he had rendered. It would be a mistake to underestimate the importance of trivial incidents of this kind in the lives of great men. In dealing with men of genius it is exceedingly difficult to distinguish the genius from the human being. Only average men possess the faculty of eliminating all personal elements from their calculations.

But however this may be, there must have been reasons of another sort influencing the attitude of Napoleon to Ouvrard and financiers in general. Like nearly all dictators, Napoleon all his life cherished an insurmountable mistrust and a hardly concealed aversion to bankers and merchants. The fact that in special circumstances he knew how to pay them compliments does not disprove this general tendency, which is manifested both in his words and actions. At heart he regarded bankers and merchants as superfluous and obnoxious, as well in peace as in war. His point of view was that of the conquering soldier who knows how to take whatever he stands in need of. One day when Ouvrard tried to explain to Napoleon the difficulties involved in some financial transaction in Spain, the Emperor answered bluntly: "Very well, I will march myself on Madrid; with 500,000 men one gets all one wants."

Certainly the Paris financiers under Napoleon were not always so docile and compliant as the Rothschilds were, at any rate at the beginning, in their dealings with governments. The Laffittes and Ouvrards had not risen from the Ghetto: they were proud citizens formed by the Revolution. They had belonged to

the Jacobin Club and served on the headquarters staffs of revolutionary armies. They did not seek, like the old Rothschild, to conceal their fortunes, but flaunted them before all the world. Profit might tempt them, but political ambition moved them no less. Ouvrard, who was always for Napoleon the prototype of grasping usurer, pushed insolence so far as to try, though quite unqualified, to take a hand in affairs of State. The Rothschilds at this time followed the steps of generals and statesmen, adapting their business accordingly, whereas Ouvrard sought to shape policy in a direction favourable to his interests.

When he was trying to arrange a big deal in America, he then and there made plans for a fresh partition of the New World. Napoleon was to become master of all America. The Spanish colonies were to become a sort of refuge for the whole Bourbon family. The Prince of the Asturias would marry a Bonaparte princess. Napoleon might put one of his family on a throne in America and "the King of America could give his daughter to the King of Mexico." It was in these terms that Ouvrard outlined his scheme in a letter to Napoleon.<sup>1</sup>

At the same time he was scheming with the aid of Fouché for peace between France and England. This too was necessary for his business interests. But now his American project took a different form. England was to be given the North of the United States while France took the territories to the South, including the silver mines which Ouvrard wanted to exploit. It was in this form that the plan was circulated in

<sup>1</sup> Arthur Lévy, *Un grand profiteur de guerre*. Paris 1929, p. 177.

English Government circles. Napoleon was furious when he came to hear of it, and he once more threw Ouvrard into prison, where he remained several years. And it was just at this period that the Rothschilds were showing feverish activity in the camp of Napoleon's adversaries.

Naturally enough, moves of this sort only confirmed Napoleon's aversion to financiers, and he came to regard their activities as a source of public danger. The whole technique of modern banking, with its system of international clearing, involving relations with foreign countries beyond political control, always seemed to him disquieting. The shifts and subtleties employed by financiers were in contradiction with all Napoleon's notions of money, credit, property and security. The Emperor, who in 1812 set off on his campaign with a convoy of 55 four-horse waggons specially for the transport of money, was never quite able to grasp the mobility of credit. The government could when necessary requisition the property of the private citizen, and the conqueror that of the conquered: it was the right of the State and the right of the soldier. But there was something suspect in the idea that any citizen who chose to call himself a banker could dispose of money which did not belong to him.

The foundation of the Bank of France and the other financial reforms effected by Napoleon proved themselves, it is true, lasting and even exemplary. But for all that, his financial outlook remained that of an eighteenth-century monarch. For him, money was gold or silver or a document which gave a right

to them. For him credit was still what it traditionally had been, a loan advanced against a pledge. But to give pledges to bankers as Charles V had done would have been incompatible with his notion of absolute sovereignty. There remained only one method: to give bankers for a while a free hand to make money as they pleased, and then for him to take it from them. If they protested, force had to be employed: they were thrown into prison and their wealth seized.

Even under Napoleon, French bankers succeeded in amassing immense fortunes, running to a million francs a year or more. Laffitte's meteoric rise to wealth is an example. But all of them went in fear of the Emperor. After the Battle of Austerlitz, Mollien asked the banker Perrégaux, Laffitte's partner, to collect for a commission of a million francs the indemnity of 200 million imposed on the Austrians. But Perrégaux was too frightened to accept. "The thing is," he said to Laffitte, "that the Emperor does not believe in honest men: he might suspect me of having made on the exchange."

The more astute bankers were not content with passive resistance, but exercised veritable sabotage. At the end of 1807, when they considered that Napoleon was imposing excessive charges on them, Ouvrard and Vanlerberghe went into liquidation. This step was in no way justified by the state of their affairs, and was taken solely to escape payments. It was constant guerilla warfare that was waged against Napoleon by the financiers of Europe, including the French. And when the Emperor was

finally defeated and sent to Elba, the bankers, now full of enthusiasm and confidence, offered their services to the Restoration.

### *The Bourbon Restoration*

It seemed that in France, too, the golden age of high finance had now begun. Laffitte was appointed Governor of the Bank of France and given the management of the King's property. Hoping that his position would enable him to make considerable sums of money, he generously renounced the governor's salary of 100,000 francs. Ouvrard once more became a government contractor.

The unexpected return of Napoleon was thus at first sight a disaster to the financiers. But they were agreeably surprised. The Emperor appeared metamorphosed. He wanted himself to profit from the breath of liberty, which had come in with the first Restoration. He seemed to be thinking of a sort of liberal Empire of the kind established by Napoleon III shortly before his fall. Laffitte kept his post. Ouvrard did an excellent bit of business in lending 50 million francs to the government. In exchange he was entrusted with the issue of government bonds, the terms being such as to give him a profit of 20 or 25%. But above all he realized his dream when Napoleon appointed him *munitionnaire général*, responsible for the purchase of all army stores and provisions. It was in this capacity that Ouvrard took part on the Emperor's side in the Battle of Waterloo.

This period, however, was of short duration. The disaster of Waterloo brought the reign of Napoleon to a final close. A period of twenty years of warfare was at an end. All the same the liquidation of the war offered brilliant opportunities to the bankers of the victors and the vanquished alike. The Laffittes and Ouvrards flourished, being generously pardoned for having assisted Napoleon in his last struggle. But it was the Rothschilds, Napoleon's most implacable of enemies, who came off best.

Under Metternich, Austria after long hesitation finally agreed to accept financial direction from the House of Rothschild. The least important of the five brothers, who was at Naples, established a veritable financial dictatorship. The London branch made a loan of 20 million thalers to Prussia, which had been impoverished by the war. The scope of Nathan's activities from now on extended far beyond the confines of Europe. In Brazil he became banker both to the Emperor and to the government, and before long he rivalled in international lending the most important banking firm in London, that of Baring.

Most brilliant of all, however, was the rise of the Paris Rothschild. After the Napoleonic wars, the finances of France, like those of other countries, needed to be put in order. The Bourbons had also another care, to provide for the returned *émigrés* who were mostly as poor as church mice. Already during the first Restoration an indemnity had been promised them. Their old lands could not be returned to them; the peasants now installed on them would never have allowed it. So there was nothing for it

but to recoup them in another way, and it was planned to distribute government *rentes* which would provide incomes totalling 30 million francs a year. Calculated at 3% this represented a capital of about 1000 million francs. After detailed consideration it was finally decided to fix the capital outlay at 625 million francs. To raise the sum a huge conversion scheme was proposed, reducing the interest on *rentes* from 5% to 3%. This transaction was agreed to, and the matter was placed in the hands of James Rothschild.

Although this scheme met with resistance from the small *rentiers*, it was carried through, and the Rothschilds thus attained in France as in so many other countries the rank of bankers to the government. In 1830 a new loan became indispensable for armaments for the Algerian expedition, and to help the Greeks in their struggle for liberation from Turkish rule. To undertake this loan, James Rothschild outbid all other bankers, his terms being such as to involve him in the most unprofitable deal the Rothschilds had ever made. The July revolution in Paris and the proclamation of Belgian independence, which raised fears of the intervention of Russia and Austria, provoked a fall in the stock and occasioned grave losses to the Rothschilds.

#### *The Rothschilds become Pacifists*

This painful experience seems to have resulted in a fundamental reorientation of the Rothschilds' outlook on the questions of peace and war.

At the time when they laid the foundations of their fortune with the aid of war profits, they were only beginners who were ready to jump at any profitable deal. Since then they had become great bankers specializing in floating government loans, and had invested the bulk of their own fortune in government stock. The latter is, however, a tender plant, needing a tempered climate if its value is to increase, such as belongs to times of peace. Only with difficulty can it withstand the tempests of war. Thus the Rothschilds became the friends of peace.

This, it must be understood, was a banker's pacifism. James Rothschild, who ran what might be called the central information bureau for the whole family, wrote feelingly to his brother Salomon in Vienna during the troubles in the autumn of 1830. "We hold," he wrote, "900,000 francs in securities which will stand at 75% if peace is maintained. If there is war, they will fall to 45%."<sup>1</sup> So the Rothschilds used all the influence they possessed in the capitals of Europe to prevent the Belgian question leading to war, and their efforts were crowned with success.

The same situation was repeated ten years later when war threatened between France and Prussia. This time, too, the explosion was averted, thanks largely to the intervention of high finance. The widow of Meyer Amschel is reported to have said: "If my boys do not want it, there will be no war," and the words certainly contain some measure of historical truth. For nearly a century, up to the eve

<sup>1</sup> Conte Corti, *Le Maison Rothschild*. Paris.

of the Russo-Japanese War, whenever a storm was brewing, the Rothschilds might be seen making frantic efforts to avert catastrophe.

They could not, of course, go so far as to refuse on principle their participation in loans for war, for they had become good patriots in each of the various countries where they were established. Moreover, they would have run a grave risk of compromising their financial and social situation if they had tried, in time of war, to swim against the tide. But they held as far as possible aloof from all war business.

In only one case did the Rothschilds depart from this rule. That was when they took an active part in financing the Crimean War. On very profitable conditions the London house undertook the issue of an English war loan of £16,000,000. Furthermore, the Rothschilds made a loan to Turkey, guaranteed by France and England. Their unusual attitude in this case was probably determined by the fact that England took part in the war. For ever since the Napoleonic wars the Rothschilds had laid it down as a principle that money could always be lent to England's allies in confidence that the victory would always be on her side.

All the more sceptical were the Rothschilds of the other military ventures of the Second Empire. They followed with particular anxiety the war of France and Piedmont against Austria which had been organized very carefully, and which they had tried in vain to stop. For their large interests in both Austria and Italy were affected. In Piedmont,

Cavour at first got financial support from the Swiss banker De la Rue, but later got Hambro's bank in London to undertake his big loans.

Cavour also did some business with the Rothschilds, but only when he was no longer at their mercy and they no longer able to dictate their terms. When the conflict between Italy and Austria reached a critical phase, the Rothschilds found themselves between two fires. Whichever lost the war, they were bound to pay for a part of the breakages. This sombre prospect was confirmed, the defeat of Austria causing them considerable losses. And the end of the Bourbon reign in Naples brought to a close the activities of their branch in that town.

The wealth of the Rothschilds about the middle of the nineteenth century was immense. According to contemporary estimates, probably much exaggerated, the French branch of the family alone possessed a fortune of 2000 million francs. But in spite of this and the deference shown to them outwardly as veritable princes of finance, in spite of their being received by monarchs and statesmen and covered with titles and decorations, the political influence of the Rothschilds began visibly to shrink. In every government and every Court their advice was listened to, but at decisive moments it was not followed.

In France this diminution in their influence was perhaps due to the fact that, despite the outward favour shown to them, they never enjoyed the confidence of Napoleon III. For the Rothschilds, the latter was an adventurer, while on his side the Emperor never forgave their antagonism to Napoleon I

or the resistance they had offered to the re-establishment of the Empire.

With the reign of Napoleon III began the rise of another financial group whose political leader, Achille Fould, was for many years minister of finance. The chief rival of the Rothschilds at this time was the Crédit Mobilier, the bank of the brothers Pereire who were closely connected with the Fould family. It was the Crédit Mobilier which furnished Napoleon III with the money needed for the unhappy attempt to restore the Imperial throne in Mexico, while the Rothschilds prudently held aloof. In internal affairs, too, the Foulds and Pereires assumed more and more the office of bankers to the Court and to the government.

But the important change which now took place was not merely the substitution of one Court banker for another. The thing was that from the middle of the nineteenth century the government was able to free itself from the control of the big bankers, relying for support on the mass of small capitalists. The growth in the number of holders of government stock shows the increasingly democratic character of loans. Between 1848 and 1858 the number of holders of 5% *rentes* was trebled. Hitherto the bankers had enjoyed something of a monopoly, acting as they did as confidential advisers to the investing public. But now governments began to issue their loans themselves and the public appeared quite ready to entrust their money directly to the State without recourse to the banks. The latters' position was thus compromised.

*Bleichröder*

It is in Prussia at the time of Bismarck that we find once more the type of old Court banker. The country did not possess much capital, nor was it inclined to employ it in support of Bismarck's ambitious schemes. The Prussian Diet was in sharp conflict with the government, refusing to pass the budget or to authorize a loan for armaments. So there was an excellent opening for a private banker who was prepared to come to the rescue, and from those who competed, the choice fell on a Berlin banker, Gerson Bleichröder.

In origin the bank of Bleichröder was really an offshoot from that of the Rothschilds. In spite of repeated invitations from the Prussian Government, the Rothschild family always hesitated to send one of their members to settle in Berlin. They did not wish to set up a branch which would compete with those in Frankfort and Vienna, to whom they referred all their Prussian business. At least that is the official version. But there is room for suspecting that the Prussian climate and the atmosphere of the Hohenzollern Court was hardly congenial to the sons and grandsons of Meyer Amschel. So from 1828 they put their Berlin interests in the hands of Samuel Bleichröder.

His position as agent of the Rothschilds permitted Samuel Bleichröder rapidly to shoot ahead of older and wealthier firms. When, after the founder's death, his son Gerson took over, the bank had a reputation

already well established, though not of an international order. Gerson was still more determined than his father to follow the Rothschilds' example and participate in the issue of big loans. Once more the first opportunity offered was a war. During the Franco-Austrian War of 1859, shortly before the conclusion of peace, Prussia, on the insistence of Austria, ordered mobilization, and to meet expenses issued a loan of 30 million thalers. The issue was entrusted to a group of banks who received 5 million thalers as commission. Among them Bleichröder distinguished himself by his special assiduity. Fortunately for the bankers, Prussia did not go to war. She restricted herself to mobilization and to the satisfaction of the subscribers, and still more of the bankers, the loan appreciated in value.

That gave a start to Bleichröder, who thus managed to secure the goodwill of the Court. When in 1862 the conflict between government and Diet on the subject of the military budget became acute, Bismarck wrote to the Rothschilds at Frankfort, with whom he had already done business, asking them to recommend a reliable man in Berlin. Naturally the Rothschilds recommended their own agent, Bleichröder, whom Bismarck accepted all the more readily since he had expressed the wish that it should be a Jew.<sup>1</sup>

Gerson Bleichröder laid himself out to give every satisfaction, and Bismarck assured him of scope for his future activities. In 1864, Prussia, then destitute of all financial resources, started war with Denmark.

<sup>1</sup> Carl Fürstenberg, *Die Lebengeschichte eines deutscher Bankiers*. Berlin 1931, p. 48.

The Prussian Diet had just refused to authorize a war loan of 12 million thalers, as it had previously refused the increase in military expenditure. The war with Denmark was, however, both from a financial and a military point of view, a very modest prelude to the conflicts to come. Before entering into the war with Austria, Bismarck considered it indispensable to take all possible financial precautions.

Already in the summer of 1865, a year before the declaration of this war, the King of Prussia called Bleichröder to Carlsbad to take part in a conference on financing the preparations for war. A public loan could hardly be considered, for it would have little chance of success without the approval of the Diet, whose anger had not yet died down. But Bismarck and his banker found a solution. Prussia had long possessed certain rights in the railway from Cologne to Minden. These rights would be sold to the railway company itself, which would thus be released from all State interference. To carry out this transaction the railway company was to double its capital. In this way the investors' money would be given not to the government but to a private company, the latter handing it on to the government as quietly as possible.

This subtle manœuvre succeeded perfectly and Bismarck and his minister of war, Roon, were able to go ahead with their preparations. Bleichröder scored doubly: firstly in acting as intermediary during the sale, secondly in issuing the new shares. In reward for his patriotic services he further received

the title of *Geheimer Kommerzienrat* and was thenceforward regarded officially as financial adviser to the government. The agent of the Rothschilds thus became the Prussian State banker, and it was no secret that he also managed Bismarck's personal affairs, which gave him contact with the best possible source of political information. After the victorious campaign of 1866, wealthy clients turned naturally to the banker with such good recommendations and so well informed, and Gerson Bleichröder soon became the richest man in Berlin.

It was, however, the Franco-Prussian War of 1870-71 which brought Bleichröder an international reputation. At the opening of peace negotiations at Versailles, Bismarck sent for Bleichröder and asked him to suggest the amount of the indemnity which could be exacted from the French. Bleichröder, though accustomed to deal in millions of thalers, thought he was proposing a colossal sum when he suggested 1000 million francs.<sup>1</sup> But Bismarck was not in the mood to be satisfied so easily, and nothing further was heard of this figure. Henceforward Bleichröder's function at Versailles was to deal with the technical problem of the transfer of the indemnity. Opposite him as expert adviser to the French Government was the baron Alphonse, the son of James Rothschild.

### *Count Henckel*

The sum of five thousand million francs which was finally fixed for the indemnity was not the result of

<sup>1</sup> Fürst von Bülow, *Denkwürdigkeiten*. Berlin 1931, vol. iv, p. 494.

Bleichröder's calculations, but was proposed by Count Guido Henckel von Donnersmark, the second financial expert brought to Versailles by Bismarck. The personality of this aristocrat from Upper Silesia was unquestionably stronger and more original than that of Bleichröder, the typical Court banker of the old style.

Henckel was the descendant of a family remarkable both as aristocrats and as financiers. Among his ancestors were the Counts Thurzo, who, in concert with the Fuggers, had worked important iron mines in Hungary.<sup>1</sup> Another of his ancestors, Lazarus I. Henckel, at the end of the sixteenth century had made big loans to the Emperor Rudolf II during the wars against the Turks, being given in return the estate of Beuthen.

Owning and working mines, the family had amassed a large fortune, though, in 1848, when Guido at the age of eighteen came to inherit it, it had shrunk very considerably. The estates were badly managed and it did not take long for the young heir, leading a gay life in Paris during the Second Empire, to dissipate the little ready money he had.

It is true that Guido Henckel, even in this rather hectic period of his life, was already concerned in floating industrial companies, being helped by French financiers. But he always spent more than he made, and when the Franco-Prussian War broke out he was heavily in debt. His projected marriage with "la

<sup>1</sup> Bruno Knochenhauer, *Die Oberschlesische Montanindustrie*. Gotha 1927, p. 112.

Païva," the most celebrated *demi-mondaine* of the Second Empire, was not only inspired by affection but was also a means to redress his budget. For in the course of a long *carrière galante* she had made a considerable fortune, to which he had contributed very substantially.

Though in the business world and in private life his reputation was not impeccable, Henckel was nevertheless regarded in Prussian Court circles as something of an expert on France, particularly on economic questions. It was in this quality that he was called upon to give an opinion on the solvency of the French nation. In a single night he prepared a memorandum for Bismarck, getting all his information from one document only, the "Almanach de Gotha." But even if this source of information had not been available, Henckel had been too intimate with the gay life of Paris society to have any other conviction than that France, which he only knew from this side, was able to pay a very large sum. Thus he came to suggest a figure five times larger than that proposed by Bleichröder. Naturally Bismarck preferred five thousand millions to one. He first demanded six, to leave a margin for bargaining, and in the end it was at Guido Henckel's figure that the matter was settled.

This was the largest sum that had ever been demanded and paid in any form whatsoever. Rumours that Henckel had a direct interest himself in the indemnity have never been established, but it is quite certain that he made good profit out of the war. The fact that Bismarck had had recourse to him in

so important a matter gave him at once the reputation of a serious financier. Moreover, Bismarck appointed him Prefect of Metz and even went so far as to offer him the Prussian ministry of finance. This last Henckel refused, excusing himself on the grounds of his *mésalliance* with "la Païva," whom he married in 1871.

From now on Henckel occupied himself more with his private than with public affairs, and with much greater success than he had enjoyed before the war. A few weeks after the negotiations at Versailles he became chairman of the board of the Berliner Bankverein, a bank newly founded with a capital of 6 million thalers. For some years the bank, doing highly speculative business, seems to have made considerable profits, part of which naturally came to Henckel. But before long things went badly and it finally went into liquidation.

Such a phoenix as Henckel, however, came through the catastrophe with renewed energy. He founded or acquired undertakings of all sorts in Germany, Austria, Russia, in the South of France, and in Sardinia. Often he sold one business to buy or start another. When the last war broke out Henckel, then in his eighties and with the rank of prince, shared with the Krupp family the distinction of being the richest German industrialist. His fortune amounted to over 200 million marks. His having been called to Versailles had certainly borne fruit.

*War Profits of the Banks*

The great German banks, too, made large profits out of the war of 1870. At first the Prussian Government tried to issue a national loan of 100 million thalers without help from the banks. But in spite of the terms—it was offered at 88 with an interest of 5%—the public held back. Only two-thirds of the loan was actually subscribed. Thus during the course of the war the government was forced to place the remainder with a group of banks at the head of which was the Disconto-Gesellschaft, at that time the most important of the Berlin banks. The Rothschilds of Frankfort and Bleichröder took a secondary place. The success of the campaign had its inevitable reaction in financial quarters. Stocks rose and the loan turned out to be an excellent deal for the banks concerned.

The profits of the Disconto-Gesellschaft rose from 1,400,000 thalers in 1869 to 5,600,000 in 1871, and when the indemnity flowed in they rose again in 1872 to 9,300,000, that is to about £2,270,000 in present-day currency.<sup>1</sup> But as always happens after a big war, a slump soon put an end to the profit-taking from the war. At the beginning of the summer of 1872 a crash came. All the same a good part of the profits that had been made from the war were able to weather the storm and formed the basis of the prosperity which for some decades was enjoyed by German finance.

<sup>1</sup> Walter Döbritz, *Gründung und Anfänge der Disconto-Gesellschaft*. Munich-Leipzig 1931, p. 171.

The Franco-Prussian War was the last big war to be financed chiefly by banks and bankers. Already in the Russo-Japanese War the necessary money was raised by currency inflation. During this war Russia increased the circulation of bank-notes from 600 to 1200 million roubles and printed 150 million roubles of other paper money. It was only after the war that a large loan was raised to put the national finances and the obsolete monetary system into some sort of order. Directly peace was signed, the Prime Minister, Count Witte, made arrangements for an external loan of about £183,000,000, one of the largest sums that had ever been raised at one time, almost equalling the French loan issued by Thiers in 1872. In the latter case, of course, the money was largely put up by Frenchmen to pay off the indemnity and thus liberate the regions occupied by the Germans.

The conditions offered by Russia were so favourable that the loan attracted the attention of capitalists all over the world. To his great regret, the Berlin banker Mendelssohn, who had for years acted as banker to Russia, was unable to take advantage of it, at least not openly, since the Kaiser for political reasons had put a veto on all participation. At the last moment Morgan's bank in New York also refused participation, possibly because of the friendly relations existing between the Kaiser and the old John Pierpont Morgan. So four-fifths of the loan had to be raised chiefly in France, but also in financial circles in England, Holland and Austria.

Neitzlin, of the Banque de Paris et des Pays-Bas, who was arranging the issue in France, was invited

by the Tsar to his residence at Tsarskoye Selo and was installed in a ducal palace. He fought hard to get Russia to pay an interest of  $6\frac{1}{4}\%$ , but in the end agreed to 6%. The chief advantage for the bankers was that they were not obliged to transfer immediately to Russia the money subscribed, but could keep it for three months at an interest of  $1\frac{1}{4}\%$ .<sup>1</sup> From all points of view it was a deal which promised handsome profit to the bankers. Excited by lavish advertisement, the public jumped at the loan, and a few days after the lists were opened Neitzlin was able to write to Petersburg that the loan was "a great financial victory."

In the face of such a success the Russians who had taken part in negotiations thought that they too should rake in a little profit themselves. The future Prime Minister, Kokovtsov, who had conducted negotiations in Paris, asked for 80,000 roubles, but Witte refused and Kokovtsov had to be content with the Order of Alexander-Nevsky. A still greater disappointment, however, awaited the happy lenders of 1906. Twelve years later, when the Tsarist régime came to an end, this loan was repudiated with the other Russian debts and its value on the market fell to practically nothing.

#### *Financing the European War*

When the last war broke out it was generally recognized that no bank or group of banks was in a position to raise the funds required. In some

<sup>1</sup> Count Witte, *Erinnerungen*. Berlin 1923, p. 449.

countries a special fund for war had been set aside, as had been done in Ancient Rome, which should serve to meet initial expenses. But mobilization alone cost more than entire wars had cost in the nineteenth century. And though governments made haste to issue internal war loans, the money raised was far from being sufficient, and it was not long before they were forced to have recourse to the printing press. By the time of the Bolshevik revolution the circulation of paper money in Russia had already been quadrupled; in England it increased fifteenfold in the course of the war, in Germany eightfold, in France sixfold. The State resorted once more to manufacturing its own money, as it had in the eighteenth century.

At first the spurt in industry resulting from the increased demand for goods during the war brought profits to the bankers, their business increasing rapidly. But the bulk of these profits were absorbed by immediate losses. Moratoria were declared and other restrictive measures introduced for the alleviation of debtors. Whole fields of banking activity such as operations on the stock markets were temporarily closed, while overhead costs went up with the general rise in prices.

In the actual financing of the war, banks and bankers played only a secondary part. They had only to be compliant and rest content with what the State allotted them in return for their services. They were compelled to appeal to the public to subscribe to war loans, and in issuing loans their profits were meagre in comparison with former times. From 1914

to 1918 this state of affairs persisted in all the countries that were at war.

In Germany, where bankers' profits from the war of 1870 had risen to giddy heights, banks were among the small number of concerns who made no profit right from the first year of the war. In France the big banks were obliged to reduce their dividends considerably below what they had been paying during the last years preceding the war. Even in England, where industry and shipping were enjoying a veritable boom, the dividends paid by banks decreased.

### *The Morgan Loans*

The picture is altogether different when we turn to neutral countries, who soon began to take a part in furnishing war supplies. And here an important part was played by banks. In Holland, Sweden and Spain they made enormous profits in financing supplies. But the United States comes easily first in the profits accruing to "neutral" financiers.

John Pierpont Morgan, junior, whose father, the great John Pierpont, had died a year before the war, was the first to realize the unrivalled opportunities offered. He immediately set out, by providing generous credits, to corner this particular market. He lent 12 million dollars to Russia, and he was ready to offer France a credit of 100 million dollars to be spent in the United States. Then the Washington Government stepped in, Mr. Bryan declaring that loans to belligerents were incompatible with the spirit of neutrality.

The Allies were faced with a difficult situation, for American goods were indispensable. France and England paid in bullion for what they got so long as they could, but this was not possible for long. Nor was it possible for them to pay in pounds or francs without weakening the exchange value of their currency. Other means had to be found. At the beginning of the war America was a substantial debtor to Europe, and by liquidating this indebtedness the Allies could raise funds in the United States in a manner to which Washington could make no objection. Accordingly they sold the American bonds they held, these for the most part passing through Morgan's hands. Morgan was after all able, in spite of government opposition, to arrange the issue of some small loans, but these were so small as to be practically negligible.

After long efforts, England and France succeeded in overcoming the opposition from Washington. On March 31st, 1915, President Wilson made a statement on the government's policy regarding loans which gave the desired loophole. He admitted that the government had been aware of credits having been provided for belligerents; but although disapproving of them the government did not feel entitled to intervene.

His meaning was obvious. From now onwards loans were permitted. Morgan, who meanwhile had become agent of the British Government for the purchase of war material, offered a loan to England, but on such stiff terms that the treasury hesitated to accept. Difficulties also arose over another loan.

In conjunction with the National City Bank and the First National Bank, Morgan was to issue a 50 million dollar loan for France. The three banks themselves took up half the loan. When, however, they tried to get the public to subscribe the other half, only a little over a million dollars were forthcoming.<sup>1</sup> This serves to show the scepticism and lack of interest in the European War shown by American capitalists at that time.

It was only later when war exports were in full swing that Americans realized what good business the war was for them and were in consequence prepared to invest their capital in it. Morgan himself was still hesitant. He thought it impossible to issue a loan for more than 250 million dollars on one occasion. Financial experts of the Allies, however, pointed out that in such matters big figures inspire more confidence than small ones. At the start 1000 million dollars had been suggested. The Americans refused to go so far, but in the end they agreed that half this sum might be possible.

So in October 1915, under Morgan's aegis, a joint loan to the French and English Governments of 500 million dollars was arranged with a group of American bankers. From this moment war business flourished in the States and everybody seemed to be making money. Credits followed each other at ever shorter intervals. Up to the time of America's entry into the war the Allies had borrowed 2500 million

<sup>1</sup> Lucien Petit, *Histoire des finances extérieures de la France pendant la grande guerre*. Paris 1929, p. 339.

dollars, the greater part of their debt having been contracted under Morgan's auspices.

Pierpont Morgan did not fail to let it be known that he received no remuneration for having acted as intermediary in the negotiation of these loans. But we should make a mistake in thinking that he had gained nothing by all these transactions. It is true that the purely financial profits he made were less important than what he received for placing orders for munitions and the dividends he drew as a large shareholder in the various armament firms. But the profits he drew from his banking business with the Allies were far from negligible. The 500 million dollar loan contracted in autumn 1915 brought to the group of bankers, at whose head Morgan was, a net profit of 9 million dollars, for they bought at 96 and sold to the public at 98. Of this sum, however, Morgan's firm only received 66,000 dollars. Again, in 1917, the French Government paid to Morgan's and other banks a commission of 1,500,000 dollars, and a further million in 1918.

Besides the issue of loans there was another source of profit: the purchase and sale of American stock which the Allies surrendered so that they could buy munitions in the States. It is estimated that in the course of the war some 2000 million dollars passed in this way through Morgan's hands.<sup>1</sup> Even if the commission was very small, transactions of such dimensions would give him an influence on the stock market which would carry very real advantages.

<sup>1</sup> Clyde William Phelps, *The Foreign Expansion of American Banks*. New York 1927, p. 119.

Those who had imagined that with the death of the old John Pierpont Morgan the great days of the bank were over, were completely deceived. The 70 million dollars—leaving aside the art treasures—which the old man left in 1913, was probably at least doubled in a few years by his son, and the power of the bank was greater than ever.

*The State becomes its own Financier*

The situation, however, underwent a change when the United States entered the war in the spring of 1917. It is true that supplies to Europe were far from diminishing, and the Allies continued to borrow with both hands from America. But the heyday of unlimited war profits was over. An ally could hardly take advantage of the situation in the same way as a neutral. The Washington Government abandoned the old American principle of economic liberty, and all those branches of business which were of essential importance for war were subjected to its control. It supervised—though, it must be admitted, not very thoroughly—the prices of munitions and intervened also in matters of transport, in which Morgan had a large interest. The result was a considerable reduction in Morgan's profits.

Private loans to finance the purchase of munitions now diminished in importance, as the American Government offered the Allies long-term credits, working in collaboration with the Federal Reserve Bank, an institution which Morgan had in vain tried to attach to his own organization. During the

nineteen months between America's entry into the war and the Armistice, her government lent her Allies in Europe 6900 million dollars and after the Armistice another 2500 million. Private credits during the same period amounted to no more than 1500 million.

In financing America's own military expenses the bankers were still more frozen out. The five American war loans aggregating 21,000 million dollars were not the work of the banks, but were in the truest sense national loans. Naturally the bankers saw themselves obliged as good patriots to subscribe to the loans, but their situation was not the same as it had been in former wars. They were not asked for their advice; they were not in a position to make their terms, and they had no real opportunity of making profits.

Precisely on account of its previous activity, Morgan's bank was the hardest hit by this new wartime régime introduced in Washington. Morgan himself did his best, but in vain, to get President Wilson, whom he visited personally, to relent. It was not that the new order of things was aimed specially at Morgan; but his privileged position no longer existed. Morgan did not succeed in becoming, as he had hoped, the official banker to America at war.

The turn things took in the United States is characteristic of the new phase of war finance which set in all over the world. Henceforward only wars conducted by minor powers, or now and again a colonial war, could offer bankers the opportunities

they had enjoyed of old. In big wars and in their own countries the “war banker” seems to be finished for good. It is the State itself which now finances its wars. In the middle of last century it was a question of confidence: a long time elapsed before the State succeeded in winning the trust which the moneyed classes were ready to put in the bankers. Nowadays the cost of war is far too high for any financier or even a group of banks to be capable of coping with it.

It might be thought that a government could get all the bankers of the country together and hand over to them the task of financing a war. But public opinion would oppose a monopoly of this sort, particularly in time of war. Bankers have for too long made profit out of wars for anybody to believe them disinterested. To make war with the help of bankers—that means to make war in the banker’s interest. That is the prevailing point of view to-day even in the most capitalist of countries.

It may happen again that in a case of pressing need a government may find itself obliged to offer concessions to private financiers, particularly to bankers of neutral countries. It is none the less true that the profits from war which in two epochs—the Renaissance and the nineteenth century—flowed so abundantly into the bankers’ pockets, are not likely to be realized again.

## CHAPTER III

### THE ARMAMENT FIRMS

#### *The Early Armourers*

IN history, the first to make profit from war were those who carried arms; next were those who financed armaments, and only much later those who made them.

This sequence does not seem altogether natural. The armourer's is one of the most ancient of trades and one might suppose that wealth and power were from an early date derived from it. But this was far from being the case. From occasional allusions in literature, we know that in the ancient world some armourers were well-to-do. We are told, for instance, that Sophocles was the son of Sophillus, a rich Athenian armourer. But neither in Greece nor Rome were great fortunes made in armaments. And in the Middle Ages the armourers were respectable artisans without any great ambitions. In some towns highly skilled specialists arose, Seville, Toledo, Milan, Nuremburg and Liège achieving a reputation for exceptional workmanship. But even here, the master forgers attained a comfortable *bourgeois* station, but no more.

It was not the manufacture but the trade in arms which made the first substantial profits. This trade was in part carried on by mine-owners, who provided

armourers with raw material and handled the finished products. We have already seen how the great metal-dealers of the fifteenth and sixteenth centuries, such as Jacques Cœur and Jacob Fugger, traded in arms. Right from the start this commerce was characterized by its extreme internationalism. Jacques Cœur was accused of having, though a Christian, provided the Turks with copper and other raw materials. Jacob Fugger, banker to the Pope, also provided them with arms during the Turko-Venetian War.

Towards the end of the sixteenth century the English cannon foundries were already exporting on a considerable scale. Four-fifths of the cannons made in England were secretly shipped abroad.<sup>1</sup> Then Queen Elizabeth stepped in and gave two of her favourites a monopoly in these exports. It was in Sussex that armourers at last began to amass considerable fortunes. In the seventeenth century the Swedish foundries, managed partly by Dutch immigrants, provided half Europe with cannons. In 1704 in Upper Silesia, the merchant Georg von Giesche was given a concession by the Emperor to exploit the zinc mines, and he thereupon started to cast cannons in brass. In the same year, Jean Martin Wendel, founder of the line of steel magnates who still bear that name, entered the armament industry in Lorraine by buying the already important iron works of Hullin. A little later, in the Sarre, began the activities of the Stumm family, who were later to specialize in the manufacture of armour plating. The Luxemburg region, rich in iron, became one of the chief localities

<sup>1</sup> Sombart, *Le Capitalisme moderne*.

of the arms industry, the fortress of Luxemburg providing one of the best customers. During five years of warfare, between 1756 and 1761, one maker alone provided the fortress with 4650 cannonballs, 114,000 bombs and 4700 shells, which are record figures for the time.<sup>1</sup>

The lack of scruple shown by the armourers in selling war material to anybody who could pay for it, soon began to shock the governments of Europe.

In France, under Louis XIV, Colbert started the manufacture of arms by the State, the organization extending from the metal works of the Dauphiné to cannon and other munition factories in every province of the country. In other countries, governments dared not go so far, and confined themselves to licensing and controlling the industry. But in nearly all countries, during the seventeenth and eighteenth centuries, State factories were being equipped for the manufacture of musketry and powder.

The younger military powers quickly set to work to organize the State manufacture of arms on a large scale. Soon after its foundation in 1722, the Prussian musket factory of Spandau was already employing more than 250 workmen. In Russia, at the same period, a factory at Sestroreck which had been started by Peter the Great was employing nearly 700 workmen, while at the factory of Toula were 500 families. Compared with these big State concerns, the private manufacture of arms was on a

<sup>1</sup> *Die Schwereisenindustrie im deutschen Zollgebiet, herausgegeben vom Deutschen Metallarbeiter-Verband.* Stuttgart 1912, p. 45.

modest scale till towards the end of the eighteenth century. The richest of the armourers were those building ships of war. Even so late as Napoleonic times, State manufacture predominated on the Continent.

### *Krupp's Early Difficulties*

It was only in the course of the nineteenth century that the private manufacture of armaments acquired real importance. Economic liberalism emanating from England paved the way for the private trader in arms as in all else. The principle of industrial liberty and the belief that the private manufacturer stimulated by the desire for gain was capable of greater output, gradually pushed State manufacture into the background. But it was a slow process, nor was it accomplished without bitter opposition. In any case, the years of peace which followed the Napoleonic wars were hardly favourable to the arms industry.

At the time of the accession of Napoleon III in the middle of last century, a new phase set in. Great names came to the fore, names which have since come to symbolize the whole armament business. It is characteristic of the concerns we are now considering that none of them began with the manufacture of arms. In England a factory was founded in 1846 by Armstrong for making hydro-electric machines, and it was only nine years later, during the Crimean War, that he started making guns. The steel works of Vickers began in 1828, but it was not till 1869 that

it started making steel for guns. It was the same on the Continent. Krupp began with the manufacture of miscellaneous steel utensils, and it was thirty years before he began to make rifles and guns. Schneider began with steam engines and twenty years later went on to armaments.

The oldest of this "big four" is Krupp's. In the first decades of its existence, however, it was far from being a flourishing business. A young man of the small town of Essen, who had inherited from his grandmother a fortune of 120,000 thalers, started a foundry in 1812. Possibly he was influenced by the occurrence of the Napoleonic wars, which favoured the iron industry, the Continental Blockade having deprived the Continent of English iron and steel. Everywhere experiments were in progress to produce cast steel as good as that which came from England. Both among serious technicians and among charlatans, there was the keenest competition to invent new processes for steel, much as there had been among alchemists a century earlier for the manufacture of gold. Friedrich Krupp also entered the lists, but his efforts met with disastrous failure. After a few years the great family fortune was lost, and the Krupps had to leave their grand house at Essen to live in a keeper's lodge.

After the early death of Friedrich Krupp, his son Alfred, the real founder of the armament works, had his work cut out to keep himself and the family afloat. The work of the factory was done by this boy, still in his teens, with six workmen under him. It consisted of making small rollers

used by jewellers and for the manufacture of coins, also tailors' implements and other small objects. For ten years the annual turnover averaged 2000 thalers.

It was only in 1843, after a year and a half spent studying in England, that Krupp ventured on the manufacture of rifle barrels of cast steel, and this was rather the caprice of an engineer than the serious project of a business man. Krupp then sent a sample of his work to the Prussian minister of war, who replied that Prussian arms were already so good that they needed no improvement.<sup>1</sup> After this rebuff, Krupp sent his model to the minister of war in France. This time the answer was polite and even appreciative, but still no order was placed. The real reason for this failure was the high price Krupp was asking.

Neither did Krupp have any luck in his first attempts at the manufacture of guns. The Prussian Government, it is true, were now more agreeable, but they immediately asked for a gun to be cast of such dimensions that Krupp had not the means to undertake it. Two years later he had completed his first field-gun. He debated a long time whether he should send it to Berlin or Paris. In the end he decided for Berlin, but the revolution of March 1848 intervened and the gun was for long left neglected at the Spandau works.

<sup>1</sup> Dietrich Baedeker, *Alfred Krupp und die Entwicklung der Gussstahlfabrik in Essen*. 2nd ed. Essen 1912, p. 18. Cf. Richard Lewinsohn, *A la conquête de la richesse*. Paris 1928, p. 151 *et seq.*

*The Schneiders*

Compared to Krupp's vicissitudes, the Schneiders seemed to be favoured by fortune from the start. In 1836 the brothers François-Adolphe and Joseph-Eugène Schneider, of Alsatian extraction, bought the foundry of Le Creusot, which had for long been a centre of the armourer's trade. Already under Louis XIV a royal foundry was in existence at Le Creusot, which provided cannons for the French armies. In 1784 a private company was founded there with Louis XVI as one of the bigger shareholders. These works were among the principal French armament factories during the Napoleonic wars.

From 1815, however, the manufacture of guns was stopped, and the other goods manufactured were not sufficiently profitable. The business changed hands many times; amongst others some English capitalists tried to make it pay, but without success. There were three financial failures<sup>1</sup> in the course of twenty years, costing the owners some 30 million francs. It was thus far from appearing to be a gold mine which the Schneiders were offered, and it needed a good deal of courage to undertake it after its third crash.

The purchase price of 2,600,000 francs which the Schneiders paid was not perhaps very high, although people did not in those days think in millions so easily as they do to-day. But where did they get the money

<sup>1</sup> Viscomte G. d'Avenel, *Le Mécanisme de la Vie Moderne*. Paris 1922, Première Série, p. 129.

from? It did not come from their family. They themselves were in their early thirties. One of them had up to then been an employee in the bank of Seilli  re in Paris; the other had been manager of some steel works near Sedan, a business which was under the control of the same bank. Immediately on taking over the Le Creusot concern, they turned it into a company with a capital of 4 million francs, and this new firm of Schneider Fr  res et Compagnie makes it clear that they had anonymous associates. We may be fairly sure that the brothers did not themselves contribute much of the capital, and that behind them was the Seilli  re Bank.

In the time of Louis XV the Seilli  res' ancestors were already dealing in arms and controlled a cannon foundry. The head of the Parisian bank, too, did considerable business in supplies to the army. For a long time the Seilli  re family had influence at Le Creusot and to this day it is represented on the board of directors.

Although neither the original brothers nor their descendants have ever held a majority of the shares, the Schneiders were from the first the real controllers and the acknowledged heads of the business. Eug  ne Schneider with his technical perspicacity at once realized the great opportunities offered to industry by the introduction of steam, till then little used in France. Before long, the first steam-hammer erected on French soil began to work at Le Creusot. The first French locomotive was made there, and the engines for the first French steamboat. The manufacture of arms did not yet play any part at all.

However, it was not long before the Schneiders began to acquire political influence, indispensable as that is in the armament business. Already under the monarchy, François-Adolphe was elected to the Chamber of Deputies and after his death his brother Joseph-Eugène took his place. Danger threatened with the revolution of 1848, but the election of Prince Louis Napoleon to the presidency put Schneider's on a secure footing. Schneider himself became an ardent Bonapartist, and was appointed minister of agriculture and commerce. After the *coup d'état* of Napoleon III, Schneider became a member of the *Corps Législatif* and soon after its vice-president.

The year 1852, which brought Schneider such political honours, brought also material success; for an order for four warships was placed with his firm. The year following, the capital of the company, which from 4 million francs had already been increased to 6 million, was now increased again to 14 million. A year later again, Eugène Schneider was made Governor of the Bank of France and a little later *Grand Officier* of the Legion of Honour. Once more it may be observed how closely honours are connected with business. During the Crimean War, orders for warships and floating batteries came in fast, and the war against Austria brought in more. In 1863 the capital was increased to 18 million francs. Business flourished, particularly in the building of ships, bridges and locomotives. Schneider began to take an interest in land warfare, too, but his works were not yet sufficiently equipped to do much in this direction.

*Krupp's Overtures to France*

Meanwhile Krupp with astonishing tenacity persisted in his efforts to gain a footing in the French arms market, realizing the excellent opportunities which France offered under the Second Empire. And he made it a point of honour to get the British navy as a customer to prove in this way that he could successfully compete with British engineering. He sent his latest models of artillery to exhibitions in these two countries. To impress prospective customers, he exhibited blocks of solid steel of startling dimensions. A wagon broke down under the weight of one of these huge blocks as it was being carried through the streets of Paris, and when it finally reached the pavilion where it was to be shown it sank through the floor.

But in spite of this excellent advertisement, customers held off. Krupp presented his exhibition models to various sovereigns, hoping that orders would follow. But the international arms market was difficult to penetrate. Finally, a serious customer appeared, and six guns of the latest type shown at the Paris exhibition were ordered for Egypt. Another order followed, this time for thirty. But still France made no response to Krupp's overtures, though he left no stone unturned in his efforts to get Napoleon III interested in his guns. He was, of course, by no means the only one: the Emperor, who had been called the *artilleur sur le trône*, was, in fact, surrounded by those who had engines of war or explosives to sell.

Among the latter was a young Swede called Nobel,

who was carrying out experiments with new explosive substances. Alfred Nobel came of a well-known family of engineers who had been successfully engaged in the manufacture of arms. His father had made money in Russia at the time of the Crimean War, selling mines and torpedoes. But years of peace had altogether ruined the Nobels, and the sons had to go abroad to try to raise some fresh capital. Napoleon III liked to patronize foreign scientists and, though he did not open his own purse, he sent the young engineer with a recommendation to Pereire, the banker, who provided 100,000 francs for the erection of a factory in Sweden. This gave Nobel a start, and the deadly effectiveness of his explosives was soon to be seen, as they were used in the Franco-Prussian War—though by the Germans.

Krupp's aim in Paris was twofold. He wanted to get orders and also capital. The sum he was trying to raise was, of course, on quite a different scale to that obtained by Nobel. In 1865 he was trying to obtain a credit of 20 million francs. He had already negotiated with the Crédit Mobilier founded by the brothers Pereire with a view to establishing a steel foundry in France, but nothing came of this project. The bank he now approached through Haas, his Paris agent, was none other than Seillièr's, who, as we have seen, was behind Schneider's, and with whom Krupp had for years been doing business. Haas made his proposal with all the arts of a business man. "Where could France better invest her money," he asked, "than in a foreign country where peace was reigning, most of all in the armament industry

which will be flourishing when other industries are suffering?"<sup>1</sup> But for so large a credit Krupp did not offer sufficient security or right of control, and for the time being these negotiations too fell through.

Nevertheless, Seilli  re had shown considerable goodwill, and Krupp did not hesitate to play this card in Berlin. He went to Bismarck and told him that the French had offered him all the money he needed, but that, if he accepted, his business would become, at all events partially, French property. If the government wanted Krupp's to remain Prussian, it would have to come to the rescue with financial help.

Bismarck was already thinking of a war against Austria and he fell into the trap, and without any formalities Krupp was given 1,500,000 thalers on account of new orders for guns. This, however, did not prevent Krupp from going back to Seilli  re, from whom he got only a few days later a credit of 4 million francs. This gives an idea of the financial manœuvres, both national and international, which Krupp resorted to at a time when the political tension in Europe was considerable.

In selling his goods, the methods and principles adopted by Krupp were much the same. Never had a more zealous advocate been found for the cause of the internationalism of the arms market. It is true that he had been neglected by his own country. Even up to 1870 Roon, the Prussian minister of war, was sceptical about Krupp's cast-steel guns. He remained in favour of bronze and did all he could to oppose

<sup>1</sup> Wilhelm Berdrow, *Krupp*.

the introduction of steel. But even later, when he had found favour at Court and was highly esteemed by Bismarck, Krupp did not in any way change the manner of his dealings.

To sell his goods in France, Krupp flattered the French by giving them the credit for having helped to start his factory. In Paris he circulated the story, a story quite unsupported by any document, that his father had started his factory as the result of a competition organized by Napoleon I, in which a million francs was offered to anyone who succeeded in producing cast steel which could rival the English. Ill-fortune had deprived him of the prize, for, by the time it had been earned, the domination of France was at an end. The factory which had so cruelly been prevented from making arms for the first Napoleon was at least to make them for the third. And so on; but still no deal was clinched. An order for 300 cast-steel guns was almost placed when the French authorities at the last moment decided to continue making their guns of bronze. A few years later Alfred Krupp tried once more, with some new models, to interest Napoleon III, but once again he failed.

In 1868, when relations between Paris and Berlin were already getting strained, Krupp's Paris agent sent the Emperor a report on the trials which had been carried out at Essen by a Russian general and a Prussian military commission, hoping that this would whet his appetite. This was followed by the latest catalogue sent by Krupp himself to Napoleon with a covering letter. "I cherish the hope," he wrote, "that the four last pages, particularly those

showing guns of cast steel which I have manufactured for various high governments in Europe, will hold for a moment Your Majesty's attention." But all efforts were unavailing. Marshal Lebœuf, an advocate of bronze, made an unfavourable report on Krupp's guns. But, however things turned out, it was no fault of Alfred Krupp's if in 1870 the French army was not equipped by him.

### *Essen in Full Swing*

The fact that Krupp sold guns as readily to Prussia's enemies as to Prussia herself was already shown by the war of 1866. There can be no question of Krupp's having been surprised by the turn of events, for it was an open secret, months before the opening of hostilities, that the struggle for supremacy between Prussia and Austria was to be decided by force. Alongside financial preparations (the loan arranged by Bleichröder), military preparations were in full swing. In both camps intensive arming was taking place.

At Krupp's, orders for guns were so great that deliveries were delayed in spite of the fact that the number of workmen had already increased between 1862 and 1866 from 2000 to 8000. Prussia, it is true, insisted on prompt execution of her orders for which large sums of money had been advanced.

Austria had ordered 24 heavy guns, and her allies, the South German States, had also made haste to place their orders. Baden and Würtemberg came to Krupp's for guns, and as late as April 1866 Bavaria

ordered 48, but could not get the order executed, as Krupp's was already working to the limit of its capacity.

It was of course known in Berlin that Krupp's were working for both sides. A ban could easily have been placed on this exportation, or arms could have been seized on their way to Prussia's adversaries. It was feared, however, that such measures would prematurely aggravate the situation. The Prussian Government confined itself to making a confidential request to Krupp not to send any guns to Austria without authorization from the minister of war.

But Krupp answered without committing himself: the next deliveries were only due in some months' time, and he would certainly not send a single gun to Austria without previously informing the King. But as for the undertaking asked for he could not see his way to give it, for it would involve a breach of contract with his customers. In a letter addressed to Roon he expressed himself bluntly: "I know very little of the political situation, I quietly pursue my work, and if I cannot do it without disturbing the harmony between my love for my country and my commercial honour I would rather abandon it altogether. I could sell my factory and be a wealthy and independent man."

Roon was far from being a meek man and his geniality was by no means excessive; yet he swallowed Krupp's rebuff. Apparently he did not wish to quarrel with him since mobilization was then imminent. This success encouraged Krupp to attack Roon further. He went to Bismarck and complained of

the insufficiency of Prussia's heavy artillery, and he even intended to go to the King with his denunciations. As usual in such cases, he had an eye to his own advantage. After he had succeeded in disgracing some of the most capable people in the ministry of war, Krupp made a sudden demand for money, saying that he had urgent need of 2 million thalers.

This rapacity is surprising. During the last few years Krupp had made more money than ever from his business. Apart from orders from home, and from Austria and the South German States, he had secured profitable contracts with many other countries, both in Europe and elsewhere. Above all, Russia had become a customer and had placed orders amounting to a million and a half thalers. Krupp's private fortune was at this time already estimated at between 10 and 15 million thalers. Near Essen, he had built a sumptuous country house, the Villa Hügel, in magnificent grounds, where he lived in grand style entertaining sovereigns and celebrities of all countries. He kept open house, and foreign soldiers who came to visit the steel works were always given a particularly cordial welcome.

All this needed money. Still more was needed for the new plant and extensions of the works which Krupp was always planning. Though now over fifty, he was just as enterprising as he had been in his youth and as his father had been before him. The works and the town of Essen were a vast field for his energy, and what had been an out-of-the-way little place on the banks of the Ruhr, became a great centre of modern industry over which Krupp reigned

supreme. This huge expansion was not achieved without financial troubles. Krupp was always known for his high prices, but, on the other hand, his costs were on such a scale that monetary difficulties were constantly recurring. Nevertheless, he made it a point of honour to refuse bankers' credits. He did not always keep to this principle, but he sought as far as possible to avoid recourse to professional financiers. If he stood in need of money, he regarded it as the duty of the State to come to the assistance of so important an undertaking as his.

So it was after all in keeping with his principles that he applied once more to Berlin for a subsidy. The Prussian Government on the eve of a war, financed by roundabout if not illegal means, was not itself in a position to pay the sum Krupp demanded. It was, however, anxious not to offend the manufacturer of arms whose services would be so badly needed in a few weeks' time, and Roon made haste to inform Krupp that he could get an advance from the government bank, the Preussische Seehandlung, for any amount up to a million thalers.

This proposition enraged Krupp, who addressed himself to the King, threatening once more to sell his works unless he was immediately given the money he had asked for. The King answered in his most paternal style, explaining that Krupp had already received one million on account of future deliveries, and that a further million was now offered him in the form of a bank credit. In the end, Krupp condescended to accept the money in this form, but not without regarding it as "shameful" that the money

was to be advanced by a bank instead of its being provided by the treasury. All this took place a few days before the mobilization against Austria.

The Prussian victory was not without its advantages for Krupp although his guns had not proved an unqualified success, there being even some serious accidents when guns exploded. In the years which followed this war, armaments grew vigorously. After a trial in competition with other guns, Krupp obtained a large order for the Prussian navy, which till then had procured its guns from Armstrong's. All the same, competition was continually increasing. New armament firms came into being. Moreover, the old question, bronze or cast steel, was not yet definitely decided.

In France, Schneider's was developing fast. At its head, Eugène Schneider had been since 1867 president of the *Corps Législatif*, and continued to have the ear of the Emperor. It was, however, only in the field of naval armament that Le Creusot was in direct competition with Krupp's.

### *Arms in the Franco-Prussian War*

As regards land warfare, it was only during the Franco-Prussian War that the interests of Krupp and Schneider entered into rivalry. However, neither of them held a predominant position in the arms market during this war, the part played by Krupp being even astonishingly small. Right at the start of hostilities he offered to provide a million thalers' worth of guns, but this offer was declined in Berlin. Nor

were his other proposals more successful. One was to employ the *mille livres* he had been awarded three years before at the Paris Exhibition for the bombardment of the chief French forts. The other was a gun designed to shoot at the balloons over Paris.

All the same, the number of guns made at Essen rose to double what it had been the year before. And even during the war a quarter of this production, that is a hundred guns, were exported abroad. Nearly 9000 workers were now employed at the works, the business flourished, and, as a visible sign of the wealth and power of its head, a luxurious palace was now erected on the hill near Essen where the Krupp family lived in altogether princely style.

But the real war profits came later. Before peace was concluded, Krupp submitted to Berlin the design for a new field-gun. There was opposition to be overcome at the ministry of war, but after protracted discussions, Krupp finally in 1874 was able to reap his harvest. For it was then decided that German field artillery units should be equipped throughout with Krupp's new gun, 2000 of which were ordered to be delivered as early as possible.

For Schneider too the war of 1870 inaugurated a new period of development, though it provided situations that were both dramatic and dangerous. The manufacture of guns, so long interrupted, was renewed in all haste to replace losses in French artillery. During the war, Schneider provided 23 batteries of bronze guns, 2 batteries of cast-steel guns and 16 batteries of machine-guns, in all 250 pieces.

The plant installed for this production at Le Creusot formed the foundation of Schneider's future position in the French arms industry.

From the political point of view, things did not go so well. Eugène Schneider presided at the tumultuous sitting of the Chamber on September 4th, 1870, when the parliamentary assault began, following the capitulation of Napoleon III at Sedan. With difficulty he just managed to save himself, but was forced to retire from the political arena. In the hour of catastrophe the trusted Bonapartist, Schneider, succeeded in finding some flattering words for Gambetta, and so long as the war lasted, no one dared touch Le Creusot. But when the Republic was being organized, the horizon became very clouded indeed.

Thiers, the President, cherished the idea of creating a great national organization for the State manufacture of arms, which would have involved the nationalization of Le Creusot. But before it was ever precisely formulated, the idea was abandoned. The Republic established itself as a *bourgeois* institution, respecting private property as scrupulously as had the Second Empire. So Le Creusot remained a private enterprise, and to mark the brilliant future reserved for it under the Republic, its capital was augmented in 1873 to 27 million francs.

On the French side, the war of 1870 was characterized by another fact of significance for the armament industry. This was the close collaboration of American manufacturers. Already in the last years preceding the war, 145,000 carbines had been

supplied by the American firm of Remington, which at that time was as famous for its arms as it was later to be for its typewriters. Remington was thus on good terms with the French Government when war broke out, and when in the course of it French sources of supply proved inadequate he was entrusted by the military authorities with the task of buying arms in America. His task was similar, if on a much smaller scale, to that of Morgan during the last war. He received a commission of 5% on all purchases. Later it was reduced to  $2\frac{1}{2}\%$ , but even at that figure his profits were by no means meagre.<sup>1</sup>

Remington did not by any means confine himself to the supply of his own products, but set out with considerable ability to get war material over to Europe as speedily as possible. Acting through an intermediary, Thomas Richardson, he bought 37,000 rifles which the American army had left over from the Civil War and which it wished to get rid of. Superficially repaired, they were then shipped off to France. The American navy gave Remington 9 guns on the condition that they were shortly to be replaced by new ones, and also sold him 10,000 rifles regarded as defective, but which were in reality still usable. His most remarkable achievement, however, was to enlist the services of one of the United States arsenals. This enabled him to deliver in a short time 17 million rounds of ammunition, nearly six times the total stock held by the American army.

It was in fact a most lively trade in arms new and

<sup>1</sup> H. C. Engelbrecht et F. C. Hanighen, *Marchands de Mort*. Paris 1934, p. 46.

old, not altogether irreproachable politically, nor commercially always scrupulous in the matter of quality. But the goods were delivered and the profits taken.

In order to increase the home manufacture of arms, the French Government, during the war, invited an American engineer, Benjamin Berkeley Hotchkiss, to start a factory in the Aveyron. Immediately after the armistice it was transferred to Saint-Denis. This arms factory, half American in origin, was the beginning of what was to become one of the most important French armament firms, which particularly in the manufacture of machine-guns has acquired a world-wide reputation.

#### *Armament Firms in the United States*

The great help which France thus got might be regarded as a return for the help she had given to America in former wars. Indeed, the struggle of America for independence was fought largely with French arms, and it might even be said that it was France that laid the foundation-stone of the American armament industry.

In 1802 a young American who had emigrated from France, Eleuthère-Irénée Du Pont de Nemours, went back to his old country to try to raise capital to start a powder factory in the United States. Hitherto, this product had been supplied by the English, but they charged very high prices. Moreover, by suspending exports, they would at any time be in a position to weaken America's defences.

Du Pont submitted his project to the government in Paris, and Napoleon, regarding it as a way of striking at England, both economically and politically, gave his approval. The French Government worked out a design and supplied him with the necessary plant. On the other side, the President, Thomas Jefferson, authorized the construction of the factory on condition that it was not set up in a closely populated locality. Thus, at the opening of the nineteenth century, the firm of E. I. Du Pont de Nemours was established in Wilmington, Delaware. This firm is still in the hands of the family, and in the course of four generations has developed into the biggest chemical concern in America and the biggest ammunition works in the whole world.

Edifying stories are told about the first Du Pont: how he scrutinized every order to ascertain its origin, whether it was compatible with the political interests of the United States or whether it was to serve some unworthy purpose. As a matter of fact, the arms and munition industry in America did not, at first, owe its success to orders for the supply of armies, though these were not lacking. It was only during the Crimean War that Du Pont's really developed on the export side, when it provided munitions for both sides. In the early days it was the home market, providing for the needs of the private individual, which was the more important.

During the time it was being colonized, that is up to the last third of the nineteenth century, the land of the United States was held in possession with the aid of rifle and revolver. Even after the Red Indians

were finally exterminated or subjected, there remained the struggle of the whites amongst themselves for the possession of the soil. The demand for arms and munitions was extraordinary. In fact, the consumption of portable arms and ammunition by the 20 or 30 million inhabitants of the United States towards the middle of the nineteenth century was several times as great as that required by the same number of Europeans.

This tremendous consumption made a huge market for the now well-developed arms industry of the United States. The manufacture of big guns was left to Europe, but that of rifles, carbines, revolvers, and their ammunition constituted one of the first great independent industries. Among dozens of factories, three provided household names: Colt, Winchester and Remington. Colt made the first modern revolvers, masterpieces of workmanship, which though costing 200 dollars a piece, were widely used and gave a new aspect to the bloody skirmishes with the Mexicans and the Indians. Winchester produced a repeating rifle whose reputation quickly spread, extending from the revolutionaries of South America to the Arabs of North Africa. But it was Remington who developed the most solid and important export business with his famous carbines, superior in rapidity of loading to any type made in Europe.

As an armourer, Remington's most flourishing period was during the American Civil War. This very sanguinary war, which was in many respects decisive for America's economic development, had a marked influence on the armament industry.

Among other big business magnates, the old John Pierpont Morgan won his spurs during the struggle, and this by carrying on a trade in arms that was more than questionable. Acting in concert with a certain Mr. Stevens, he bought in the North 5000 carbines which were reported unfit for further use, paying for them  $3\frac{1}{2}$  dollars apiece. These he sold for 22 dollars each to General Fremont of St. Louis—in this war the generals having to procure their own arms. Later, when payment became due, the military authorities protested, but Morgan went to law and won his case in the court of first instance and again on appeal. On this deal his net profit was not far short of 100,000 dollars.<sup>1</sup>

The termination of the Civil War was a severe blow to the armament makers. So good an internal market for arms was not likely to return; accordingly, manufacturers turned their efforts to the export trade. In the years which followed, Remington alone sold half a million rifles in Europe, Africa and South America. Supplies for the Franco-Prussian War were succeeded by large orders in preparation for the Russo-Turkish War of 1877-1878. The general equipment of the Turkish army with over 400,000 Remington carbines was planned but fell through, owing to the heavy "rake off," which the Turkish buyers claimed. On the other hand, the Turks gave Remington an order for 210 million rounds of ammunition, a quantity hitherto unheard of. Russia, too, placed orders with this firm. Remington executed his orders as promptly

<sup>1</sup> Gustavus Myers, *Geschichte der grossen amerikanischen Vermögen*. Berlin 1923, vol. ii, p. 538.

as possible. If some of the shipments to the Near East were delayed, it was because, in the meantime, a Cuban revolt had broken out against Spain, bringing in new orders for urgent delivery.

### *Years of Peace*

For the international arms industry, the last decades of the nineteenth century were a period of quiet and, if one may use the word, peaceful development. The world had indeed become dreadfully peaceful. Changes in the map of the world, for example in the partition of Africa, were effected by small military expeditions, and the quantity of arms employed was insignificant. For in colonial expeditions governments were inclined to count the cost of every round fired. For instance, before the conquest of the Soudan, Kitchener had to work out an exact estimate of the cost, and he was not to spend a penny more.<sup>1</sup>

It was only right at the end of the last century and at the beginning of the present one that martial breezes began once more to disturb the political climate. The Spanish-American War, the Boer War, and then the Russo-Japanese War brought new orders to the armament makers. But even in the last of these wars the combatants did not succeed in firing more than a million rounds, whereas in the American Civil War, no less than five million had been fired.

Since the political situation failed to create a sufficient demand for arms, the manufacturers set out to

<sup>1</sup> Lloyd George, *War Memoirs*. London 1933, vol. i, p. 192.

launch new technical devices which would necessitate continual re-equipment. Towards 1880 a Swedish engineer, Torsten Vilhelm Nordenfeldt, built the first effective submarine. For a century this had been tried but without any real success, and even now naval authorities were sceptical. The first country to buy one was Greece.

In 1884 an American, Hiram Maxim, patented a machine-gun capable of firing 600 rounds a minute. This was an invention which no great power could overlook, and the purchase of these weapons took henceforward a larger and larger share of military estimates. The first country to acquire machine-guns was England, and English nationality was at once conferred on their inventor. A partnership was formed between Maxim and Nordenfeldt, Maxim undertaking the technical management of the business.

On the commercial side the master spirit of the concern was a Greek born in Asia Minor, Basil Zaharoff, a man who during the decades that followed became one of the chief figures of the international arms industry. Zaharoff started trading in arms in 1877 as Nordenfeldt's agent in the Balkans, and thereafter he exerted his salesmanship all over Europe. All the tricks of this strange trade were already familiar to him when he came to London to work with Nordenfeldt. After the fusion of the latter's business with Maxim's, Zaharoff was soon well in with Maxim, who was the greater genius of the two, with a more promising future, and this association continued when Nordenfeldt broke off and started a new factory in

Paris. It was Zaharoff who conducted negotiations when the Maxim Gun and Ammunition Co. was taken over by Vickers' for the price of £1,300,000. Maxim was swallowed up by Vickers', but not so Zaharoff, who now became the guiding spirit in the fused concerns.<sup>1</sup>

About 1880 England was the centre of technical progress in the armament industry, but ten years later a new process was invented in Germany which enabled Krupp to produce armour plate decidedly superior to that produced by the Harvey process hitherto employed.

The old Alfred Krupp did not live to see this new advance which attracted the attention of armament makers all over the world. He had died in 1887, being succeeded by his only son, Friedrich Alfred Krupp, a man by no means of the same calibre. He had inherited the 100 million marks which had been amassed in forty years of armament manufacture, but not the family ability, and from now on the business was really run by technical and business managers.

The enterprise, however, which had characterized the business hitherto, did not decline. With a new invention, the interest of all the world must be excited to reap the maximum profits. Influential men and experts of all countries were at once invited to Essen and they were greatly impressed with the new steel. The great American steel concerns paid a very high price indeed for the American rights and used the process for the American fleet and also for that of Russia.

<sup>1</sup> R. Lewinsohn, *Zaharoff*. Paris 1929, p. 78.

In 1896 Krupp's started in earnest on marine armaments when they acquired the Germania dock-yard at Kiel. The Kaiser's policy of naval expansion ensured sufficient orders for this new branch of the business. Between 1896 and 1911, 9 capital ships, 5 small cruisers, 33 torpedo boats and 10 submarines were built for the German navy at Krupp's new yard, and to this must be added the orders executed for foreign governments. The rise of the German navy meant prosperity, too, for ship-builders of other countries. For the naval race that now ensued brought orders to Vickers' and Armstrong's, and in America to the U.S. Shipbuilding Co., which in 1904 was merged in the Bethlehem Steel Corporation.

### *Growing Competition*

Army estimates, too, rose sharply from the beginning of this century. This in turn gave rise to a profusion of new armament firms amongst which was the keenest competition. In most of the great countries, in addition to the old-established small arms factories, large factories were now equipped for making artillery pieces, and some of these new concerns could compare in size with the old armament centres of Germany, France and England. Russia, who hitherto had been the best customer in the international market, now placed most of its orders with the Poutiloff factory in Petersburg. The origins of this firm went back a long way, it having been founded in 1801. But it was only from 1868, when it

was taken over by N. I. Poutiloff, that it began to acquire importance as an arms factory.

Still more rapid was the growth of the Skoda works in Austria-Hungary. In 1859 Count Waldstein, a descendant of Wallenstein, had started a machine factory at Pilsen in Bohemia. This was acquired by E. Skoda in 1866, at a time when Bohemia was the theatre of war. From this time the works grew steadily, but it was only twenty years later that they were turned to the manufacture of war material. From 1890 guns were cast there. In 1899, shortly before Skoda's death, the business was turned into a limited company with a capital of 25 million crowns, this being done to enable the works to be extended; but Skoda still kept a controlling interest. Incidentally, he received 2 million crowns from the banks who participated in the floating of the new company. His heir, Karl Skoda, continued the business, and was made a baron. Besides providing for home requirements, the Skoda works took a place in the international market. In 1913 an ammunition factory was added, and before the war the capital had been further augmented to 42 million crowns.

During the war between Russia and Japan, the latter fought largely with imported weapons. But afterwards they set out to organize their own manufacture on a very large scale. The Japan Steel Works were started with a capital of 15 million yen. This new factory was connected with Vickers', from whom Japan had during the war obtained most of her supplies.

*Internationalism of the Arms Trade*

It seems clear that during the two decades preceding the last war there was a growing tendency to organize arms manufacture on a national basis. It was the wish of governments that for war preparations as well as for war itself, their countries should be as far as possible free from the need of foreign help, and to this end they favoured the establishment of private arms factories within their frontiers. But that must not be taken to imply that the firms in question confined their manufacture to national requirements. In spite of the nationalism which supported them, the arms industry itself remained international in outlook, as much as, if not more than, any other industry. Those who ordered and could pay were generally served. Political considerations played a very small part indeed, and this at a time when foreign loans were largely subordinated to the policy of governments. To put in peace-time a ban on the export of arms to another country, would have been regarded as an unfriendly act. And if this argument was not sufficient, the arms makers found other reasons of a technical nature to overcome the objections raised from government quarters or to allay the hostile suspicions of the public.

One day, when the old Krupp was reproached with having furnished the same guns to Austria as to Prussia, he answered the Kaiser frankly enough. "We cannot live on Prussia alone; for the next ten

years we shall need at least 50 millions' worth of orders. And if foreign countries place orders with me, I cannot decently send them goods of inferior quality."<sup>1</sup> And so it went on. In time of peace the arms industry needed exports so as to increase its production and thus be more prepared to work on a war-time scale. Krupp's, which at this time was regarded as the largest national armament concern and was constantly being favoured by the minister of war, did not show any embarrassment at publishing their export figures. On the contrary, it was a proof of the excellent quality of Krupp products and a feather in the cap of German industry that all the world should come to Essen for their guns.

In 1912, on the occasion of its centenary, Krupp's brought out a publication in which may be found exact figures of its exports abroad. Up to the death of Alfred Krupp in 1887, 24,476 guns had been made at Essen, of which 13,910 were for foreign customers. Up to the end of 1911, the total had risen to 53,600, of which 27,300 had been sold to 52 foreign countries. The proportion in both cases is about the same: in round figures, Krupp's sold half its guns abroad. Just before the war the firm's profits were 34 million marks a year, and of this a considerable part certainly was derived from the sale of war material to countries with whom Germany was shortly to be at war.

The internationalism of the armament trade was not merely a question of a free export market. The

<sup>1</sup> Wilhelm Berdrow, *Krupp*.

business was like any other, and all sorts of commercial relations developed in it. The arms merchant sought to steal his rivals' customers, but if competition got too keen for business to be profitable, then peace was made between the rivals and the market was shared between them. It was in the munition trade that this process went furthest. After cut-throat competition during the long period of peace, the ammunition factories in 1897 formed a cartel which embraced practically the whole world. Production was controlled and markets delimited, and, more important still, European and American manufacturers agreed to standardize their export prices.<sup>1</sup>

In the manufacture of arms, particularly of rifles, there was also a tendency to form international cartels. But the variety of products and the diversity of the competing firms prevented the conclusion of any world-wide or durable arrangements. The banks, too, played a part in this growing internationalism. Then again, armament firms often held shares in foreign armament concerns. This, of course, was not a peculiarity of the arms trade. What was remarkable was that the arms manufacturers treated their business just exactly as if they were dealing in knitted woollen goods or mirrors.

The financial alliances among armament firms did not necessarily correspond with the system of political alliances. For instance, up to the period immediately preceding the war, Vickers was in friendly relation with the German arms factory of Loewe &

<sup>1</sup> William S. Stevens, *Industrial Combinations and Trusts*. New York 1913, p. 176.

Co., and a member of the Loewe family was on Vickers' board of directors. As well as their interest in Russian and Japanese firms, Vickers had a factory in Italy, a country at that time allied to the Central Powers.

In the last decade before the war, when it was considered necessary to expand the Russian manufacture of arms, French and English capital played the greatest part. None the less, Skoda's as well as Schneider's acquired a block of shares in the reorganized Poutiloff company. Moreover, the Austrian banks, chiefly the Credit-Anstalt of Vienna, provided money for the arms industry in Russia, while the Hamburg armourers, Blohm & Voss, helped to equip the Russian naval dockyard which Poutiloff acquired with Schneider's aid. The ramifications of the arms trade were endless, and one must not suppose they were inspired by secret political motives or the desire to spy out technical processes of other firms. It was just business, and business all the time. Politics were left a long way behind.

### *Propaganda*

The last statement, however, requires modification. For the armament makers were quite ready for politics if it was to advance their business interests. Every good salesman recognizes it as his duty to increase consumption, and so it was with the traders in arms. But apart from technical invention, this could only be accomplished by painting

the international situation in sombre colours and calling attention to the arms possessed by the opposing camp.

For this propaganda to be effective, it must be brought to bear on public opinion. The arms industry accordingly sought more and more to influence the press and those political parties and groups which could directly or indirectly advance their interests. Naturally enough, the trade expected a return for the money it spent in propaganda, and if it was not forthcoming, it could get angry. It has known how to reward, but also how to punish.

When in 1901 an unexpected slump suddenly occurred in Germany, the newspapers who were spokesmen of the heavy industries demanded an order for several new warships. The head of the navy, Admiral von Tirpitz, did not immediately respond. Then Prince Salm, president of the *Deutscher Flottenverein* (Navy League), which was subsidized by the arms industry, wrote to Tirpitz: "With the order for new ships of war and the resulting revival of commerce and industry, prices would rise on the *Bourse*, many shares would be saved from collapse and the market would once more be firm."

Much embarrassed, Tirpitz answered that he was quite ready to do what was asked, but that the orders proposed would involve dockyard extension, and that the Reichstag would not be prepared to authorize the necessary expenditure. Then the armament makers lost patience. What was the good of the *Flottenverein* if it could not arrange things of this kind? At once the subsidy was cut off, and whereas in 1901

the *Flottenverein* had received 170,000 marks, in the following years their books could only show receipts amounting to 410 marks.

All this, of course, was only done for the maintenance of peace, economic revival, and the general well-being of the body politic! Incite a war? Far from it. Such an idea is as foreign to an armament maker as to the most fanatical apostle of peace. It may even be noticed that during the last days before the outbreak of the war in 1914, it was the newspapers closest to the arms interests who were the most pacific in their utterances. Such demonstrations of the love of peace may have been made only to produce a good effect, perhaps they were inspired by last-minute scruples, presentiments that for armament firms as well as for peoples the war would be a game of chance.

In any case, there is no room for reasonable doubt: the armament industry does not desire war, at all events unless it is in some distant country. What it wants is well-armed peace and permanent tension. Too cloudless a peace is a misfortune—but so may be a war. The constant *threat* of war: that is what is most promising for this particular business.

To sustain the fear which this menace inspires it was sometimes even necessary to launch a “scare” upon the public. The navy scare of 1909 was a masterpiece of this sort of thing. It was instigated by Mulliner, a director of the Coventry Ordnance Works, a firm connected with the shipbuilders, John Brown. As if the real armaments of Germany were not sufficiently menacing, Mulliner sent the government

alarming figures of her secret naval strength. According to him, the German naval programme was in reality twice as big as that officially published by Tirpitz. Later, in 1912, competent English statesmen were letting it be understood that Germany already possessed two dozen dreadnoughts. Really, there were only nine, but the British Government was able under cover of the scare to lay down four more dreadnoughts. This was not without its reaction abroad and the German programme was further augmented in turn. On both sides it was the armament firms who got the benefit, for at that period the building of a battleship meant a profit of £250,000.<sup>1</sup>

### *The Great Powers in the Arms Industry*

Such extraordinary manœuvres certainly helped to swell the profits of the arms industry. But as a general rule they were hardly necessary. The big armament firms no longer needed to beg for orders as they had had to do in the middle of last century. By the sheer economic weight of their huge undertakings they had become political factors whose power was reckoned with on all sides.

First and foremost came Krupp's, which in the last years before the war was employing over 70,000 people. Its capital had now reached 250 million marks, though the family character of the business was still conserved. Bertha Krupp, the granddaughter

<sup>1</sup> H. N. Brailsford, *The War of Steel and Gold*. 10th ed. London 1918, p. 90.

of Alfred Krupp, was sole proprietress, or practically so, for only four shares of 1000 marks each were in other hands. There were no male heirs in this generation of the family, but to conserve the name Bertha's husband, a German diplomat, was authorized by the Kaiser to add Krupp to his name, and he became Krupp von Bohlen und Halbach. Bertha Krupp, the richest woman in Germany, enjoyed wide popularity.

Next to Krupp's in importance come the two English concerns, Vickers' and Armstrong's, the capital of each being £7,000,000. But in these two firms the family interest was comparatively small. At Le Creusot, the capital had been kept small: just before the war it was only 36 million francs, though at the value of the shares on the Paris *Bourse*, its real value was nearer 200 million. The Schneider family continued to hold a considerable block of shares.

In these four great concerns, as well as at Skoda's, Poutiloff's and the Bethlehem Steel Corporation, iron and coal mining adjoined the manufacture of war material. The big armament firms endeavoured as far as possible to possess the sources of raw material, and by the development of auxiliary branches to make themselves as self-contained as they could be. That is why armament manufacture and heavy industry have become in popular language almost synonymous terms. Though this popular view is rather an exaggeration, the overlap is certainly considerable. The masters of these immense concerns rank even in peace-time among the richest and most

powerful. Visibly, they are pillars of the nation; invisibly, they hold the strings which govern political forces throughout the world.

### *War Profits in Central Europe*

From the outbreak of the war in 1914 the armament firms in the countries at war found themselves suddenly in a new situation. Things were no longer as they had been in 1870 when exports continued to flourish. This time all exportation was forbidden except to allies, half-finished orders for foreign countries were requisitioned, and the whole manufacture was subjected to rigorous political and military control. It is true that raw material for armaments, such as nickel and copper, sometimes found its way through neutral countries into the enemy's camp, but on the whole supervision was sufficiently strict to reduce illicit trade to very small proportions.

The ban on exports, however, brought no hardship to the manufacturers. For any losses that might have been sustained on that score were from the outset more than compensated by the huge orders placed by the home government. And if military control did effectively restrict the powers of boards of directors, yet the armament firms never lost the character of private enterprise. To stimulate increased production, all who had war material to sell were allowed to make substantial profit. There were no longer any problems in financing production or finding markets, at any rate for factories already established. Credits and advances were furnished

without question. At first, the only problem was to increase production as rapidly as possible. Later another arose: how to prevent their soaring profits from seeming too enormous to the public.

In this regard, less diffidence was shown by the armament makers of the Central Powers than by those of the Allies. In Germany, Krupp's won such admiration from the army and the public with its new inventions, particularly with its 42 cm. gun, that no attention was paid to the money side of the business. Or if it was, it was to consider it as a just reward that the business made 68 million marks during the first year of the war, double the profit earned in the last year of peace. What good would it do anybody to force down the price of guns and restrict the profits of Frau Bertha Krupp? For inflation had already started and there was money in abundance; if more was required, more could be printed. On the other hand, the need of guns was pressing, so let the manufacturers make what they could so long as they delivered the goods—that was the simple logic which during the first year of the war seemed right to everyone.

And Krupp's was not alone: the profits of other steel works in Germany were augmented to about the same degree. The average profit rose from 12.5% in 1914 to 23.2% in 1915. Some concerns suffered at first from the mobilization of their workers and the cessation of exports. But as soon as war orders began to be executed, profits rose sharply. The Oberschlesische Eisenbahnbedarfs Aktiengesellschaft, one of the most important works in Eastern

Germany, saw its profits dwindle in 1914 from 2,700,000 to 1,700,000 marks. But the year following it jumped to 6,300,000 marks and dividends rose from 2% to 10%. The profits of Ludwig Loewe's rifle factory rose from 1,700,000 marks in 1913 to 2,900,000 in 1914, and then to 4,300,000 in 1915. There were even many engineering works engaged on military requirements whose profits increased sixfold during the first two years of war.

It was only in 1916, when a tax was placed on war profits, that they began to decline—at least on paper—and that a further rise in dividends was precluded. Further profits earned were employed in various ways or paid into invisible reserves. Accordingly, Krupp's seemed outwardly to prosper on a more modest scale. At that time 158,000 persons, male and female, were employed, the part played by women having greatly increased. This was the largest employment roll that had ever been reached in Europe. But profits now fell to 50 million marks.

In Austria, too, things went well for the armament makers. At Skoda's the number employed rose to 53,000, while the average profit, which had formerly been 5,600,000 crowns, rose during the first three years of war to 11,300,000. The dividend paid was only increased from 14% to 17.5%, but in 1916 the company's capital was increased from 45 to 72 million crowns and its shares jumped in nominal value from 200 to 320 crowns. This prosperity, however, was not to last. In 1918 no dividends were paid.

The profits of the works at Steyr jumped higher even than Skoda's, increasing from 2,700,000 crowns just before the war to 14,300,000 a year between 1914 and 1917.

### *Hotchkiss*

In comparison to the profits in Central Europe, those realized in France were more modest. Here on the average, profits were less than doubled. In this case, however, an average does not give an accurate idea, for the situation varied widely. This was not due to differences in enterprise or technical ability, but rather to geographical situation.

The North-east of France was occupied by the Germans and the works in this region suffered badly. On the other hand, at Le Creusot, work could continue uninterrupted, out of the reach of gun-fire. Since no steel could now be obtained from the East, Schneider's had at the outset taken over some large steel works in Normandy and the firm also acquired coal mines. The annual profit during the war rose from 6,900,000 francs to 10,400,000. This enabled dividends to be increased by 30%, while at the same time considerable sums were paid into reserve.

The Hotchkiss works did even better. In this firm, which had been reorganized many times, there was now a considerable British interest. The last years before the war had been rather critical. Experiments had been going on for a long while with the object of producing a new machine-gun of very rapid fire. So much had been spent in this way, that in 1912 the

capital of the company had to be written down from 6 to 4 million francs. But in the end the effort was justified and the new model was ready at just the right moment.

From the outbreak of war Hotchkiss was one of the principal manufacturers of machine-guns for the Allies. The factory at Saint-Denis proving inadequate, another was started at Lyons in September 1914. In the course of the next years two others in the neighbourhood of Lyons were added. Moreover, the British Government got the firm to start a factory at Coventry. The total production of machine-guns by this firm amounted to over 100,000, besides which there were spares and accessories.

The profits were enormous, greater than those of any other armament firm in Europe. Twice the company's capital was doubled without a penny being subscribed. Dividends soared from 8% to 100%, so that the shareholders drew many times the capital they had originally invested. But even that was not all. After the war the company, having sold its factory in England, was able to pay the shareholders the full nominal value of their shares. In this way a number of millionaires arose in France who owed their fortune to machine-guns.

### *Boom in Italy*

Turning to the arms industry in Italy, we find a frantic race for profits. Though poor in raw materials, Italy, like other countries, wanted to manufacture its own arms and munitions. To the 66 regular

armament factories were added 1000 auxiliary factories, not counting 1200 smaller workshops which were also turned to the manufacture of munitions. In all, over 400,000 workers were employed in the country.

This was certainly a considerable achievement; but the Italians were not content with that. They wanted to follow the example of the great industrial countries in forming vast armament combines producing everything from raw material to finished product. Lack of raw materials and real industrial efficiency were hidden by imposing figures.

The façade was indeed impressive. In the heavy industries the big firms already established, Ilva and Ansaldo, knew no limit to their expansion. In both concerns highly speculative influences were at work. Under the control of the Bondi family, the firm of Ilva increased its capital from 15 to 300 million liras. But even this artificial expansion was surpassed by Gio. Ansaldo & Cia, who specialized in the manufacture of arms.

The founders and chief shareholders of this firm were the brothers Perrone, descendants of a family of rich industrialists, a considerable part of whose fortune was invested in the Argentine. They had already had the opportunity of gaining experience and profit from war, firstly, in the Russo-Japanese War, when the Ansaldo works had carried out important orders for the Japanese navy, and later during the Italian expedition in Tripoli and in the Balkan wars. What had been done so successfully on a small scale was now to be repeated on a large

one. To the older products of the business, such as armour plates, new ones were added, including aeroplanes and motor cars. The firm's employees swelled to 50,000. One of the most profitable orders was for the replacement of Italian artillery after the heavy losses suffered before Caporetto in 1917.

At the same time Ansaldo's recklessly started or acquired other businesses on every hand. On the basis of a small steamship company, the Transatlantica, Ansaldo's formed the Società Nazionale di Navigazione with a capital of 10 million liras, which was soon after increased to 150 million. The Ansaldo company itself increased its capital from the original 35 million liras to 500 million, while it raised another 500 million by other means. Huge figures had no terrors for the brothers Perrone, and the fever of speculation ran its course. With a little economic sense it could have been predicted that such a giddy tower built on the poor foundations of Italian industry was bound, one day or other, to collapse.

### *Mass Production in England*

In spite of the efforts of all belligerents to use to the utmost their own resources for the production of arms, the industrial supremacy of England over the Continent became more and more plainly visible as the war went on. For England possessed all the advantages: raw materials, factories, skilled labour and capital.

The indecision of the English military authorities

at the beginning of the war was quickly overcome. In the middle of October 1914 Lloyd George, then Chancellor of the Exchequer, sent for the representatives of the big armament firms, Armstrong's, Vickers', Beardmore's and the Coventry Ordnance Works. He told them the government would provide the capital necessary to enable them to increase their output and that of their subsidiaries. It would, moreover, compensate them for possible losses. To this offer the firms replied that they would do everything in their power to increase production. Thereupon, the orders already placed for 878 guns were almost doubled.

But that was only the beginning. In May 1915 the Ministry of Munitions was formed, and under Lloyd George's direction things were greatly speeded up. With government help, Vickers' spent £800,000 on extensions, Beardmore's spent £700,000 and Armstrong's £525,000,<sup>1</sup> and in the years which followed the expansion of the industry was continual. The total production was enormous. During the war, 25,000 guns, 240,000 machine-guns, 4,000,000 rifles, 250,000,000 shells, and 10,000,000,000 rounds of small arms ammunition were made in England.

In all some eight or nine thousand firms contributed to this output, but the bulk was provided by a few big concerns. Armstrong's alone, employing 70,000 to 80,000 workers, made 13,000 guns besides building 12 capital ships, 11 cruisers, 11 submarines and 8 smaller vessels. Nevertheless, it was Vickers', in

<sup>1</sup> George A. B. Dewar, *The Great Munition Feat 1914-1918*. London 1921, p. 123.

which Basil Zaharoff had now a good field for his salesmanship, that took first place.

Whereas the capital of Armstrong's was increased from £7,000,000 to £9,500,000 that of Vickers' was raised to £13,500,000. The production of this firm was 9000 guns, over 100,000 machine-guns, 7 large warships, 53 submarines, 3 fleet auxiliaries and 62 smaller vessels. To this must be added 5500 aeroplanes constructed at Vickers' works at Weybridge and at Crayford.

It is difficult to form an exact idea of the profits earned by all this activity. In England armament profits were restricted by law. They were not allowed to exceed a figure 20% higher than the average for the two years previous to the war. Anything above this had to be made over to the treasury. Accordingly, in spite of the enormous expansion of their trade, the dividends of the big English armament firms were not raised to any great extent.

All the same, the money made by people like Basil Zaharoff during the war gives an idea of the profits that were to be earned in commissions and in other indirect ways. In the summer of 1918 it was stated that Zaharoff had given hundreds of thousands of pounds to charitable and scientific causes in the interests of the Allies during the war. But this generosity did not seriously affect his fortune, and he was, at the same time, able to get under his control a whole group of banks and industrial concerns. At the end of the war he was considered to be one of the richest men in Europe.

*Profits of the U.S. Steel Corporation*

But all the money made in Europe either by individual capitalists or by companies is negligible in comparison with what was made by the Americans. J. P. Morgan, who was the Allies' agent in America for all war purchases, was at the same time a director and a large shareholder of the United States Steel Corporation, which raked in the biggest war profits of any firm in the country or even in the whole world. The profits of this concern rose to three times what it had been before the war; and considering the size of the trust, that means something enormous.

The first period of the war saw a serious diminution in the profits of great steel trusts of America. After the excellent year of 1913, that of 1914 opened badly and the outbreak of war accentuated the depression. Enterprise seemed lacking; people were inclined to wait to see what happened in Europe. Supplies to the belligerents encountered opposition from the government. So in the United States Steel Corporation profits fell from 127 to 71 million dollars.

But as soon as Morgan managed to overcome the government's opposition to war exports all was changed. In 1915 the United States Steel Corporation was once more able to announce a handsome profit: 135 million dollars, as much as had been made in the best years before the war. The needs of the war now came to be fully realized, and the United States Steel Corporation, which so far had only been making arms in one or two of its

subsidiaries, now organized the production of war material on a vast scale. As a result profits in 1916 amounted to 333 million dollars.

During the last two years of war a dividend of 16% could still be paid, this being three times the figure for the best pre-war years. But now that the United States had entered the war the published profits shrank appreciably, for the firm could not conscientiously charge its own government or that of its allies the swollen prices it had asked as neutrals. The profits declared for 1917 and 1918 were 245 and 199 million dollars respectively.

Those were the published figures, and for a long time they were accepted. But in 1934 an enquiry was started, and the Senate made a thorough investigation into the war accounts of the armament firms. The results were startling. It now came to light that the profits realized by the United States Steel Corporation were as follows: in 1914 only 46 million dollars, in 1915 and 1916 about the same as the published figures, in 1917, 585 million, and in 1918, 519 million. As will be seen, the last two are more than double the published figures.

It must, however, be borne in mind that the United States Steel Corporation was already before the war the biggest industrial concern in the world. The only one which could possibly be compared to it was the Standard Oil Company of Rockefeller. In this light the figures above seem less extravagant. If its profits from the war are compared with those of other American companies, they will even appear moderate. 1500 million dollars had been invested in it, including

the capital found for the huge expansion of war years, so that the maximum profits, those for the year 1917, only represented about a third of the capital. There were other companies whose profits for the same year amounted to three times the capital invested.

### *Bethlehem Steel Corporation*

To get a better idea of the prosperity of American war industry, we must turn to the Bethlehem Steel Corporation, the second great steel trust of the United States. From one point of view, this firm was entitled to a lion's share of war profits, since it was from the start an armament firm pure and simple. Though it later extended its activities into other fields, it was never particularly successful in these ventures. From 1904 to 1915 it had not paid a cent in dividends on its 15 million dollars of ordinary shares.

The war brought life into the business. In 1916 it was suddenly possible to pay a dividend of  $22\frac{1}{2}\%$ . The year following a dividend of  $23\frac{1}{2}\%$  was paid, while a further  $200\%$  was distributed in bonus shares. This gave rise to hostile comment in the country, for it was known that this firm was supplying two-thirds of the guns required by the American army, to say nothing of orders placed for the navy. To placate public opinion, the board of directors confined themselves during the last year of this war to paying a  $10\%$  dividend on the increased share capital.

According to its own declarations, the Bethlehem Steel Corporation made an average profit of 20 million dollars during the years of war. But, according to the Senate Commission, it was 62 million for the year 1917 alone. The salary of the president, Eugene Grace, ran into millions. The surprising thing, however, is that the chairman of the board, Chas. M. Schwab, the real head of the firm and its original creator, should himself have made so little out of the war. For he had always been regarded as the infant prodigy of the steel industry; and when still a young man, he had earned 2 million dollars a year as president of the United States Steel Corporation. Strangely enough, his name does not figure on the list of those Americans who, between 1915 and 1920, paid income-tax on incomes of a million dollars a year or over.

The copper industry, too, found great prosperity during the war. Although guns were no longer cast in bronze, the use of copper for ammunition was sufficient to make millions of dollars for the mine owners. The output of the American copper mines rose 50% during the war, while the price was doubled. The profits declared by the companies concerned were three or four times what they had been before the war. Here, too, the Senate investigations disclosed some interesting figures. The Kennecott Co., one of the Guggenheim group, made a profit in 1917 amounting to 70% of the capital invested. The year following it was 60%. The corresponding profits of the Utah Copper Company, another concern in the same group, were 200% and 150%.

But even this was surpassed by the Calumet & Hecla Copper Mining Company, who won the palm with 800% of the invested capital in 1917, and 300% in 1918.

*Profits of the Chemical Industry: the Du Ponts*

Both in America and in Europe, however, it was the chemical industry which earned the most substantial and durable profits from the war. Chemical warfare in the strict sense was not yet sufficiently developed for it to bring in any great profits. But the consumption of explosives (explosives proper and propellants) reached unheard-of proportions.

In the United States it was the old established business of Du Pont who made the biggest profits from the manufacture of ammunition. According to American statistics, Du Pont's supplied 40% of the total ammunition used by the Allies during the war. At the works the number employed rose from 5000 to 100,000, while the output of powder rose from 2,500,000 lbs. in 1914 to 400,000,000 lbs. in 1918. The total turnover in war material amounted to 1250 million dollars. Total profits were 266 million dollars, whereas before the war they had averaged 6 million a year, that is to say, they increased tenfold. There were not many businesses in America which achieved such a proportional increase. As regards the actual size of the profits, Du Pont's come next to the United States Steel Corporation, that is, they come second in rank among all the arms and munition factories of the world.

At first dividends were proportionate to the enormous profits, a good part of which went to the Du Pont family. 30% was paid for 1915, 100% for 1916. In 1917 dividends fell to 51%, and in 1918 fell further to 26%. The total dividends paid out for these years amounted to 140 million dollars, more than double the company's capital. Even so, big reserves were built up. Towards the end of 1918 the firm had 222 million dollars in hand and were owed a further 20 million.

It was at once realized that with the last shot fired the business must retrench. Within a few weeks the number employed was reduced to a third, but even that reduction was not sufficient. At the same time, the problem arose of how to employ the money accumulated. The first investment made by the directors, and the most important, was in a branch of business which had nothing to do with the firm's traditional activities.

At first it was, no doubt, regarded merely as a side speculation, but it turned out to be one of the happiest that had ever been made. Already before the end of the war, Du Pont's had acquired a block of shares in the General Motors Corporation, a block sufficiently large to inconvenience those who had hitherto controlled the business. For a time there was a struggle between the two opposing groups of share-holders; then an agreement was reached, the Du Pont interests being now represented on the board of directors by an able financier, John J. Raskob.

In the slump which suddenly descended on the

United States in 1920, the founder and principal shareholder of General Motors, William C. Durant, found himself in difficulties. The Du Ponts, with the aid of Raskob, took advantage of the fact to consolidate their position in the company. Durant was thrown out and Pierre Du Pont became chairman of the corporation.

This manœuvre cost the Du Ponts 50 million dollars. At a moment when the motor trade was in difficulties, even Henry Ford feeling the pinch, it was certainly a daring move. But in the end it was justified. Motor business picked up once more and General Motors flourished. In 1929 the shares held in General Motors by the Du Ponts brought in more dividends than the total profit of their own business.

The close connection between Du Pont's and General Motors presented another advantage. Du Pont's were thus assured of an excellent customer for their chemical products, particularly their varnish for car bodies. From this start, Du Pont's became the largest manufacturer of paints and varnishes in the world, and with the addition of other "peaceful" products, they became one of the largest general producers in the chemical industry.

### *The Chemical Industry in Europe*

The big European chemical concerns also owe their present condition largely to the development and profits occasioned by the war. A good example in the chief German chemical trust, the I.G. Farben-

industrie. This concern in its present form only goes back to the end of 1925. Six big companies have gone to make the present combine, of which some had been established for several generations. The most important of them had enormous works in which nitrogen was extracted from the air.

Shortly before the war this company, the Badische Anilin- und Soda-fabrik, had started making synthetic ammonia by a new process. The experimental stages were hardly passed when war broke out and Germany found itself cut off from Chilean supplies of saltpetre, which had hitherto been regarded as an essential ingredient of gunpowder. In this situation the country turned to the Haber-Bosch process whereby ammonia was made from nitrogen extracted from air. The company's factory at Oppau, on the Rhine, was enlarged as quickly as possible, while another one larger still was erected at Leuna, in Saxony.

The government provided the necessary capital. No exact figures have been published of the subsidies given to the German chemical industry during the war, but it has been estimated that up to 1919 the Reich provided in all over 500 million marks for the chemical works which later combined to form the I.G. Farbenindustrie. Even if these were not gold marks, they were none the less of far greater value than the marks in which these chemical companies later paid off their debts. As happened in many other cases in Germany, the profits of war were immediately succeeded by the profits of inflation.

The essential point, however, is not that the Badische Anilin- und Soda-fabrik paid so little for its own development, but that the war-time scale of production could be maintained in peace, the 200,000 tons a year of nitrogen being now used as chemical manure.

The German chemical industry was not composed of family businesses to the same degree as the heavy arms industry, so that it is not so easy to know who were the persons who pocketed its enormous profits. Among them, however, was one whose income was in some ways extraordinary. This was Carl Duisberg, managing director of the Bayer works at Leverkusen, near Cologne, and later founder and chairman of the combine.

The income received by this man was remarkable, not only on account of its dimensions, but also on account of its source. In the official list published in 1934 of those in America who had during the war been in receipt of an income over a million dollars, there are no foreigners except for a single entry in 1918, the name being Carl Duisberg, Leverkusen, Germany. Up to the present day the nature of this income has not been disclosed, whether it was derived from patents, dividends or other sources. But whatever the source, the fact is very strange: that a German industrialist, who during the war was one of the chief organizers of German chemical manufacture for war, could draw from a foreign and enemy country so large an income.

By means similar to those employed in Germany, the chemical concerns in other countries succeeded

in maintaining, after the cessation of hostilities, the prosperity the war had brought. Thus in Italy the firm of Montecatini, which had worked chiefly for munitions during the war, turned also to the manufacture of chemical manure as soon as peace was concluded.

The transition from war to peace went less smoothly in England, where the chemical industry after the war tried to free itself too abruptly from dependence on Continental supplies, particularly those from Germany. Nevertheless, after some vicissitudes, Sir Alfred Mond, afterwards Lord Melchett, succeeded in forming Imperial Chemical Industries Ltd., a strong combine composed of four big groups, one of which was Nobel's. In many branches of this concern, which since its formation had dominated chemical production in England, the effects of war profits are still visible.

In France, the industry suffered a period of ups and downs which, however, came to a happy ending. The most important concern to-day, the *Établissements Kuhlmann*, had their works in the war zone completely destroyed. But even during the war, reconstruction, with added capital, was undertaken. In various parts of France, powder and other chemical works were erected. The shareholders who during the four years of war had not seen a dividend—a unique occurrence in the armament industry—were able to reap an abundant harvest as soon as peace was made and production successfully switched over to dye-stuffs and chemical manures.

*The Losses of Poutiloff and Skoda*

Whereas almost everywhere the chemical industry came out of the war not only with handsome profits, but with excellent prospects, the situation in the heavy armament industry was very unequal.

The concerns in this industry can be divided into three groups :—

1. Those which suffered heavy losses from the political results of the war.
2. Those which collapsed after the war for economic reasons.
3. Those which managed to conserve their war profits and employ them usefully in peace-time.

The chief member of the first group was the firm of Poutiloff at Petersburg. Already in 1905 the works had been a centre of revolutionary activity, and for this reason had fallen into disgrace with the government. During the war agitation amongst the workers increased to such proportions that production could not be developed as it was in other countries. All the same, expansion took place with the help of government finance.

After the Bolshevik Revolution this concern was one of the first to be nationalized. Its last director and chief shareholder, Nicolas Poutiloff, managed to reach Paris with a certain amount of his fortune intact, but the greater part was lost. Several years went by before the Russian Government began to take an interest in the economic revival of Leningrad,

when the Poutiloff works once again became an important armament centre.

The next great industrialist to be hit was Baron Skoda. With the break-up of Austria-Hungary, Skoda's came under Czechish sovereignty. The new republic of Czechoslovakia did not wish its most important armament works to remain under the control of a family so closely linked with the Habsburg régime. Accordingly, pressure was put on Karl Skoda, who retired from the board of directors in the spring of 1919. His shares were disposed off by the Zivnostenska Banka of Prague, the majority going either to Schneider's or to a Czechish syndicate. Eugène Schneider became a vice-chairman of the board.

In the revolution, Karl Skoda lost not only his title, but the greater part of his pre-war fortune. According to him, the block of shares he had inherited from his father had been worth about £4,000,000. When the Zivnostenska Banka took over his shares, he was paid 7 million Czechish crowns, equivalent to some £67,000. All the same, he had not only this but the wealth he had amassed during the war in shares in other companies and in country estates. These shares he sold to Castiglioni, the Croesus of the inflationary period in Vienna whose star was then just rising. With this money he bought a number of houses, and later, bank shares. Thus at his death in 1929 he was still in a position to leave his children a fortune of 35 million Czechish crowns, *i.e.* some £330,000.

After a short period of transition the Skoda works were soon in full swing once more. For a time they

returned almost exclusively to their old trade of machine construction, but then the manufacture of arms developed once more. The firm acquired an interest in other armament firms, holding for example 40% of the shares of the Czechish arms factory at Brun. To-day, Skoda's is not only the biggest armament concern in Czechoslovakia and even in the Little Entente, but is one of the biggest arms exporters of the world.

### *Reconstruction of Krupp's*

It is easy to understand that with the war over the fate of Krupp's should be watched by all the world. For it was not only the biggest armament concern in Europe, but was also regarded as a symbol of German military power. That is why at the Peace Conference it was particularly insisted on that Krupp's should definitely cease to exist as a centre of arms manufacture. A very considerable reduction of the works was, in fact, carried out. According to German sources, this included the destruction of 9300 machines weighing in all 60,000 tons and 800,000 tools weighing 10,000 tons.

Krupp von Bohlen und Halbach has himself estimated the cost price of the material destroyed up to autumn 1925 at 104 million marks. But it must not be supposed that this loss fell wholly on the Krupp family. The Reich was under obligation to give them compensation. What this compensation was during the first years of peace has never been published. Even if it had, the figures would be of

doubtful value considering the constant change in the value of the currency during this period. After the occupation of the Ruhr, however, the German Government, without at first informing the Reichstag, gave the Ruhr industries a subsidy of 700 million marks (and these were gold marks), of which a considerable part went to Krupp's.

With these monies Krupp's had less difficulty than many armament firms in other countries in adapting the works to peace-time production, in spite of the fact that this adaptation was forced upon it. The programme was ambitious: attention was turned to almost everything in which steel could play a part. All sorts of goods were manufactured: marine engines, locomotives, rolling stock, agricultural machinery, cash registers, measuring instruments, cinema apparatus, telephones, electric cookers, and lots more. It was not possible that all these lines should be successful. Some of them, however, went well enough and helped to keep the business going.

But all this was only one side of Krupp's activities, a fact too often forgotten. Already before the war, Krupp was one of the largest mine owners in Germany, employing in them 15,000 men. Annual production consisted of 2,500,000 tons of coal and 700,000 tons of coke. This side of the business had hardly been affected by the peace treaty. Krupp had to give up his holding in certain iron mines in Spain, but, on the other hand, he had before long secured other sources of raw material both in Germany and abroad.

Thus, at no moment was the Krupp family menaced

with the fate of Poutiloff, or even of Skoda. In fact, its position was so strong that it was able to refuse to sacrifice its independence in the new steel trust that was formed in the Ruhr, the Vereinigte Stahlwerke. Employing between 60,000 and 70,000 hands, Krupp's remained in spite of all the largest family concern in Europe.

In 1935 Krupp's employed 90,000, the highest number ever reached in peace-time, and profits once more exceeded 10 million marks.

### *Post-war Depression*

In contrast to its mild effects on Krupp's, the depression in the arms trade after the war caused havoc in some of the victorious countries. The first crash, and the most serious, came in Italy. As has already been indicated, the recklessly expanded arms industry in that country was riding for a fall. But the fall, when it came, was worse than the most gloomy predictions.

For a time business was carried on as though all was well. For the year 1920 a profit of 8 million liras was announced by Ilva's. But the façade could not be kept up, and six weeks later it had to be confessed that the whole share capital of 300 million liras, as well as reserves, had been completely wiped out. The bankruptcy was complete; there was absolutely nothing for the shareholders. However, with its liabilities washed out, the firm was started once more, and it was able again to take its rank as the foremost steel works in Italy.

Before the affairs of Ilva were finally wound up another firm went under. This was Ansaldo's, the biggest armament concern in Italy. In this case the government intervened and actual bankruptcy was avoided. But the business had to be completely reconstituted and the brothers Perrone lost their position of control. Four independent companies were formed to take over the various branches of the business. One of these took over the manufacture of arms and ammunition, and this company was kept in the hands of the government. This was one of the first acts of Mussolini.

The slump developed less quickly in England, though in the end its effects were very serious. As in other countries, it was sought to replace the manufacture of arms and munitions by other goods. A great expansion was even planned to find a productive employment for the large reserves accumulated during the war. At Armstrong's an ambitious programme was drawn up for the extension of the business abroad. This included the construction of dykes, dams and other public works in every quarter of the globe. But, for the realization of these plans, it was necessary to get orders from abroad, and, not less important, that customers should be solvent. This last condition was not so easily fulfilled in the inflationary period.

In the meantime, Armstrong's had acquired Pearson & Knowles Ltd., an important steel and coal concern. For this transaction, Armstrong's capital had been increased by a further £1,500,000. In 1921 the firm started on its overseas projects, forming the

Newfoundland Power and Paper Co. to generate electricity from the water power of Newfoundland and exploit its forests for the manufacture of paper. The cost of this undertaking was £3,000,000. Similar investments followed in Italy, Canada and Japan, money being dealt out lavishly.

The activities of Armstrong's seem, however, relatively modest compared to those of Vickers'. This firm had been thrown right off its balance by the prosperity of the war years. Its capital had been increased to £26,500,000, the maximum that had ever been reached by an armament firm in Europe, and directly after the war it embarked on new ventures, particularly the manufacture of rolling stock and electrical equipment. To this end two firms were acquired. The British Westinghouse Co. and The Metropolitan Carriage Wagon & Finance Co. Judged by the capital involved, this was the most important deal ever carried out in England.

But, like Armstrong's, Vickers' did not confine its activities to the British Isles. In Poland it collaborated with Schneider's to form the Société Polonaise de Matérial de Guerre, and in Roumania it acquired several concerns engaged in the heavy industries. It plunged into the electrical industry in Italy, purchased mines in Spain, and opened a branch in France. In general, the business was run just as if the war had never ended and as if there was no need to worry about finding markets. In a short time £17,000,000 had been laid out in these new departures.

Discomfiture did not wait long. The most ambitious

of Armstrong's new enterprises, the Newfoundland company, turned out the most unprofitable, but even the older-established branches of the business suffered serious depression. To the particular slump in the arms business was added the general economic difficulties of the time, above all, the slump in ship-building. The Washington Conference restricted naval programmes just when the Admiralty was beginning on a policy of expansion. Orders for four new capital ships had, in fact, already been placed. At the conference, the Americans demanded that these orders should not be executed, and even that ships in the course of construction should not be finished. Moreover, no new construction was to be undertaken for a period of ten years. Though not really wishing to go so far, the English nevertheless agreed in order to demonstrate their willingness to disarm.

This was a heavy blow for Vickers' and Armstrong's as well as for smaller concerns. Vickers', more seriously threatened than others, decided to pay no dividends on its ordinary shares, though the year before there had been a profit of over £500,000 and another half million had been carried forward from the year 1919. For the first time the armament firms got a foretaste of what things would be like in a world without arms.

The Americans, however, were bent on playing their cruel game still further. One day their delegates made the proposal that in future warships should not be constructed in private yards. Repeatedly the board of Vickers' made anxious enquiries

of the Admiralty: was the British Government really ready to capitulate to the American demands? The answer came after much hesitation. The Admiralty considered it "necessary and desirable" to maintain Vickers' naval dockyard and armament factories. All the same, the request for a subsidy to keep them going was refused.

### *Vickers-Armstrong Ltd.*

For a few years still the big British armament concerns were able to live on their capital. Then the situation became desperate. Vickers' was the first to face it. In 1925 a committee of experts was invited to examine the situation and suggest what remedies were necessary. The report of this committee, which included the most eminent financiers, was not very comforting. To put the business on a profitable footing once more the capital must be written down. There was nothing to be done but to reduce liabilities at the expense of the shareholders, who must be prepared to lose a third of their capital if they were not to fare worse. From £20,000,000 the capital was reduced to £12,500,000. At the same time, Mr. Douglas Vickers, who had been chairman since the end of the war, resigned.

The fate of Vickers' created a stir all over the world. Had the world really become so pacific that there was no lucrative business for so great a firm—or was it simply due to the imprudence of embarking on too many ventures? A few months later the difficulties of Armstrong's went to show that Vickers' was no

isolated case. From the financial point of view, Armstrong's troubles were even worse. Over £14,000,000 was lost, a sum exceeding the total capital of the company. The Board of Directors requested a five-year moratorium.

But Armstrong's were not going to get off so lightly. In fact, it was to suffer much more severely than Vickers', for it was only able to get its affairs straightened out with the sacrifice of its own independence. An extensive reorganization was effected, and a new firm, Vickers-Armstrong Ltd., was formed in 1927 to combine the armament side of the two great concerns. In this fusion Armstrong's had to take second place. It was Vickers' organization which formed the basis of the new company, and it was Vickers' that held the greater part of the shares. Thus an old rivalry came to an end—a somewhat humiliating end for Armstrong's.

During the year 1925, when the British armament industry was in the throes of its difficulties, Sir Basil Zaharoff, the great salesman of Vickers', was drawing an immense income from a majority holding of the shares in the casino of Monte Carlo. While Vickers' and Armstrong's were learning adversity, the casino, acquired by Zaharoff soon after the war, was making a profit of 110 million francs. A few years later, and just at the right moment, before the casinos of the Riviera began to feel the pinch, Zaharoff sold out at a handsome profit. His war profits had thus been far better placed in games than if they had been invested in guns, for which at the moment nobody had any use.

But this clever deal of the cleverest of all the arms merchants only proves once more that however bad things are, there is always a happy solution for the real finanical genius. The great majority, however, of those who had put their money into the arms business, regarding it as the most permanent of trades, were profoundly deceived. And considering that in England war profits had been effectively restricted, they suffered a real loss of capital. Strange as it may seem, in England the war did not bring wealth to the mass of shareholders in the armament firms but cost them a substantial sum of money.

### *Expansion of Schneider's*

Among the great armament firms of Europe, the only one to maintain its war prosperity was Schneider's of Le Creusot. Compared to other firms, Schneider's certainly found itself in a somewhat privileged position. After the partial destruction of Krupp's, no one could dispute the claim of Le Creusot to be the greatest armament works on the Continent. States in urgent need of guns, such as those newly founded in Central Europe, went to Schneider's. Moreover, France, if she was to maintain her military power, was obliged to renew her arms.

There was, however, another factor of more importance still. This was the political position in which France found herself after the war. Not only had she won, in Alsace-Lorraine, a valuable industrial province, but it was under her protection that the Danubian States now tried to organize themselves.

This conjuncture of circumstances offered many possibilities quite apart from the supply of arms. And from a political, financial and industrial point of view, Schneider's was better placed than any other concern for taking advantage of the opportunities, and under the able Achille Fournier it proceeded to do so.

The first task was to secure a comfortable share of the sequestered German concerns in Alsace-Lorraine. Collaborating with de Wendel, Schneider's acquired the chief works belonging to the Lothringer Hüttenverein, as well as the Gelsenkirchener Bergwerks—A.G. The purchase price of these steel and mining concerns was high enough, but the government, which sold them by auction, allowed deferred payments. Fixed in francs, payments naturally became easier and easier as the franc fell in value, so that like many other firms in similar circumstances, Schneider's benefited very considerably from the post-war inflation.

Schneider's did not rest content with the profits and acquisitions which accrued in this manner. From 1919 onwards it pursued a definite policy of expansion. Before the peace treaties were signed the firm acquired, as we have seen, a large interest in Skoda's. Soon after, it acquired a large block of shares in the Berg- und Hüttenwerksgesellschaft, founded by the Archduke Frederick of Austria, one of the largest iron and coal concerns in Czechoslovakia. The third great business which it acquired was the Huta Bankowa works in Poland, situated in the industrial region of Western Galicia. Besides these,

Schneider's bought up a number of smaller businesses in the Succession States of the old Austria-Hungary. Finally, by holding shares in two big banks, the Ungarische Allgemeine Creditbank and the Niederösterreichische Escompte - Gesellschaft, it secured virtual control of many other industrial enterprises in the Danube basin. In carrying out these transactions, Schneider's was always sure of financial support from the Banque de L'Union Parisienne with which the firm was closely associated. The huge group now controlled by Schneider's was finally combined in a company formed specially for the purpose in April 1920, L'Union Européenne Industrielle et Financière.

In 1921, when Achille Fournier was killed in an accident, the expansion of Schneider's in Central Europe was practically complete. The combine still continued to grow, but far more slowly. One or two firms joined in, the chief being Arbed, a steel works in Luxemburg.

Profits were good and fairly regular, though for the year 1925-26 no dividend was paid for the first time for three-quarters of a century. But this year was exceptional. It was the year of Locarno, thus a bad year for armaments, and this factor was further aggravated by monetary troubles in France.

To find armament firms whose post-war development was comparable to that of Schneider's, we must turn to America. For the United States Steel Corporation armaments were really rather a side line, and this side of the business, successful as it had been, was not pushed after the war. The Bethlehem Steel

Corporation was a real armament firm, but, like others, it sought to turn the business in the direction of non-military production. The slackening in the arms trade in 1920 and 1921 offered an excellent opportunity to buy up other armament firms less able to weather the depression, and the Bethlehem Steel Corporation acquired a few other concerns such as the Midvale Steel & Ordnance Co. But during the years of American prosperity it was the pacific side of the business which took first place.

The American public began to look askance at armament firms after the war, and, like Du Pont's, the Bethlehem Steel Corporation tried to make out that it was really not to be regarded as an armament firm at all. It published figures whose object was to show that no more than 1·5% of its capital was now engaged in the manufacture of war material, whereas at the start it had been 92%.

### *Zaharoff and his Disciples*

In general, however, the first decade after the war was a bad time for the armament business. All round, naval and military expenditure was very considerably reduced. There was nothing to incite an armaments race such as Europe had witnessed before war broke out. Once more unceasing efforts had to be made to procure orders, and this hunt for customers assumed fantastic forms.

The armament firms, it is true, had no qualms about the open advertisement of their wares. They distributed illustrated catalogues; and armour

plating was offered to the public as unblushingly as gramophone records. At the British Empire Exhibition at Wembley, the latest gun models were exposed to the public's admiring gaze just as they had been at the great exhibitions of the nineteenth century. But the time was passed when on such occasions the monarchs of Europe came, saw and ordered. In fact, this direct publicity for armaments attracted most attention from those who condemned them. To do real business subtler methods had to be found.

In this sphere the old Zaharoff was still the master. Though he had prudently invested his own money in other directions more in harmony with the spirit of the times, he was still an enthusiastic agent for the sale of arms. Zaharoff still worked for Vickers', but this firm had concluded a secret agreement with the Electric Boat Co. of America, so it was natural that he should work for the latter too, which he did on the very high commission of 5%.

The Electric Boat Co. specialized in submarines, and orders were scarce enough during these years. There were, however, one or two centres of unrest in the world which offered some hope. Spain, for instance, was conducting the Riff campaign in Morocco. It might be thought that for such a campaign only land weapons would have been required; but this would be an error. It was just precisely submarines which Spain needed. Zaharoff had always been in close touch with Spain, and just now his marriage, at the age of seventy-five, to the Duchess of Villafranca brought him closer still. He was able

to explain to the authorities in Madrid that no modern colonial power could exist without submarines, and he was listened to as an expert. On the orders which followed, he netted 766,000 dollars in commission.

After this deal the Germans appeared on the scene as competitors. Zaharoff reported to America that they were "terribly active," and that it even looked as though they might get a firm footing in Spain. Something had to be done to circumvent this, and the American ambassador in Madrid was asked to intervene. Similarly, in the Argentine, the diplomatic service was called in to frustrate French competition. This time, however, it was unavailing, and the Electric Boat Co. failed to sell their submarines.

Besides diplomatic manœuvres, other means were employed in South America. In this quarter of the globe the armament industry had always made free use of graft. Lieutenant Aubry, a follower of Zaharoff, was doing business for the Electric Boat Co., and he asked the firm to send him 15,000 dollars for "special commissions" in Peru, and 50,000 dollars for an anonymous personality in the Argentine. Again, the son of President Leguia in Peru got 20,000 dollars for each submarine sold to the Peruvian Government. This young man did particularly well, for his family connections enabled him to put in a word for submarines with General Gomez, President of Venezuela.

It must not be thought, however, that such methods as these were unknown in Europe. Deliveries from Skoda's to the Rumanian army gave rise to a serious

scandal. It appeared that those who had placed the orders were not altogether disinterested.

A letter from Zaharoff to a younger colleague gives an idea of the perseverance and the finesse required for the sale of arms. "Government representatives," he writes, "are often difficult to deal with, but my fifty years' experience with them tells me that tact goes a very long way, and whenever my firm has got into misunderstandings with the authorities, I always changed the person who had been negotiating and utilized somebody else, and went on doing this until I had somebody who was sympathetic to the authorities."

### *Threats of Disarmament*

We turn now from individual to collective action. Though keenly competing with each other, the armament firms were capable of pulling together when their common interests were threatened. The great danger was, of course, any general scheme of disarmament. For serious statesmen whose aim was peace there were two possible alternatives: an armed peace or an unarmed peace. For armament firms this choice did not exist, for the last alternative meant economic extinction. So they mustered all their resources for the political struggle, using all the means that had been employed before the war, with only this difference perhaps, that now they were used more brazenly than ever. They sent their emissaries to Geneva to fight disarmament tooth and nail.

One of the most glaring cases was that of William B. Shearer. Having distinguished himself in the organization of a press campaign for a larger navy, Shearer was sent to Geneva in 1927 by three American firms, the Bethlehem Shipbuilding Corporation (affiliated to Bethlehem Steel), the Newport News Shipbuilding Company, and the American Brown-Bovery Company. During negotiations on disarmament, his obstructionist activities were so flagrant that the British delegation complained to Washington. Kellogg, Secretary of State, who was just then at work on his famous Pact, passed the complaint on to the naval authorities. The latter informed the firms in question that they must drop Shearer, and this they promptly did.

As often happens in such circumstances, a dispute arose over payment. Shearer maintained that the three companies had promised him 250,000 dollars for his services of which he had only received 50,000. The quarrel proceeded till Hoover intervened, setting up a commission of enquiry to go into the question. The armament firms protested, but without success, and the enquiry revealed much that was damaging to them as well as to certain officers of high rank in the American navy.

Far more efficacious than political action of this sort was the constant propaganda carried on by political parties, associations, and newspapers who had an axe to grind in supporting the armament industry. Particularly intensive was the propaganda supporting the heavy industries in Germany. The magnates of these industries, Hugenberg, Thyssen

and Kirdorf, succeeded at considerable expense in strengthening nationalist and militarist tendencies in Germany. The same thing was going on in other countries. Aristide Briand knew what was afoot, and his words have often been quoted: "The articles against peace are written with pens made of the same steel as guns and shells."

There were still more indirect ways of pulling strings. Here is an example which dates from the time of the "disarmament danger." The famous film director, M. G. W. Pabst, had conceived the idea of making a great anti-war film, but he could not find a financier to back the project. One day he received an offer emanating from persons who "preferred to remain anonymous." Two million marks were to be placed at his disposal on condition that the film would deal, above all, with the horrors of gas warfare. After considerable enquiries it finally came to light that the offer had been made by manufacturers of gas masks. It need hardly be added that Pabst did not accept.

### *The New Pre-war Period*

The time when these and such like methods were necessary is now past. Since 1933 the danger of disarmament has been definitely eliminated. The rearmament of Germany has been followed by a fresh spurt in armament all over the world. When Japan and Germany had left the League of Nations, the Disarmament Conference was as good as dead.

The present wave of rearmament is not so much a

matter of recruiting as of war material. The first to benefit has been the aeroplane industry. With the creation of a new German air force, the shares of those companies making aeroplanes or their engines leapt up in value. Thus, for example, the shares of the Bayerische Motorenwerke were quoted in 1934 on the Berlin *Bourse* at five or six times their value a few years before. In England, where the air arm had been somewhat neglected, large orders were placed. Armstrong-Siddeley, Fairey Aviation, De Haviland, Rolls Royce and many other firms have benefited.

The aviation industry in France has not enjoyed quite the same prosperity. Here a number of small factories are working at a loss, though efforts are being made to concentrate manufacture in five or six big companies. In spite of this tendency, factories of rather moderate size predominate in this industry in every country. Nothing comparable to the great steel and chemical concerns has yet grown up.

To a lesser degree, but nevertheless considerably, the old armament firms have profited from the new arms race. If some concerns like the Bethlehem Steel Corporation are not yet making regular profits, that is due rather to the many pacific branches of the business which are still suffering from depression. In spite of substantial orders for arms, the war profits of the business do not make up for the peace deficits.

All the same it may be affirmed that the armament industry has weathered the recent economic depression pretty well. The armament shares quoted on the exchanges show the real situation much better

than published balance sheets, and in all countries they have been following an ascending curve, or, if not, at any rate one which is ascending relatively to other industrials.

It is in Japan that the big armament firms have done best. The two chief Japanese concerns, Mitsui and Mitsubishi, have each sunk a capital of some 250 million yen in the manufacture of war material. Whereas in 1933 and 1934 the shares of other industries only increased in value by 50%, those of the great armament firms increased 300% in value.

The export of arms is continually growing, though some governments put obstacles in the way. As regards guns, many of the great powers are sufficiently busy catering for their own needs, thus leaving a good export market for some of the smaller industrial countries. Of the latter, Czechoslovakia is the most important. Even during the very quiet years from 1925 to 1930, this country increased sixfold its export of arms, most of which were from the Skoda works, official statistics giving Czechoslovakia as much as 10% of the world trade. In Sweden, the principal ordnance works, Bofors, has been working almost exclusively for export. This firm was founded under the auspices of Alfred Nobel, and until recently a large number of its shares were held by Krupp's. In 1933 the exports of Bofors amounted in value to 20 million Swedish crowns. It is largely due to this firm that Sweden has been able to do 8% of the world trade in arms.

Nevertheless, the chief exporter has all along been

England. According to League of Nations statistics, she exported arms and munitions to the value of £3,500,000 during the slack year of 1930. These official statistics give, however, a very inadequate picture, since they do not include either warships or aeroplanes, but are confined to arms and munitions in the strict sense.

The size of naval exports from England may be gathered from a report issued in 1934 on the activities of Vickers-Armstrong's. This firm had just signed a contract with the Turkish Government for the construction of a 10,000-ton cruiser, two destroyers and two submarines. Shortly before, the Brazilian Government had ordered two 10,000-ton cruisers, one destroyer, one mine-layer and a submarine. Negotiations were already on foot with Portugal, Greece and Chile, who were expected to place orders for their navies. At the moment, 14 warships were being built or re-armed. Of these, 11 were for foreign powers, only 3 being for the British navy.

American estimates have given 200 million dollars as a round figure for the total world exports of war material of the year 1931.<sup>1</sup> In view of the examples given above, this will hardly seem an exaggeration, particularly considering that this figure only represents an eighth of the total spent in all countries on war material. Whatever may be the figures for the present day—and these are never known till some years later—there can be no doubt that the armament business is once more flourishing. Post-war depression is over; prosperity has now returned. And

<sup>1</sup> Engelbrecht and Hanighen, *Marchands de Mort*, p. 245.

prosperity in the armament trade is the characteristic symptom of a pre-war period.

If we look to the history of armaments to tell us the meaning of the present and the course of the future, one question stands out before all others. Does the armament business want war? Certainly it owes its development to war rather than peace. Certainly during the last war it found a prosperity it had never known before. Nevertheless, when all the results of the war are taken into account, the desirability of war is more than doubtful.

For the armament industry a new war would bring risks of the utmost gravity. Above all, there is the risk that the industry would not come through it still in private hands. The movement to nationalize the arms business is still strong, and in the case of war it might be further strengthened. And by nationalization we mean something much more drastic than the somewhat elastic government control and supervision which was exercised during the last war.

When all is taken into account it looks as though the arms merchants are no longer to be classed among those who draw profits from war. They will draw profits from preparations, profits from exercises and manœuvres, profits from new technical invention in the instruments of death. But if the slaughter once began, it is uncertain what their fate might be.

What they want is not war, but a precarious peace.

## CHAPTER IV

### THE CONTRACTORS<sup>1</sup>

#### *Self-supporting Armies*

WAR should be self-supporting. For thousands of years that has been the soldier's maxim. To attain this end three means have been employed. The first is pillage in its simplest form. This is nowadays regarded as immoral. It is still sometimes practised, it is true, but it is condemned by authority even if the condemnation comes too late to stop it. The second is authorized pillage, pillage for which a receipt is given; in other words, requisition. The last is pillage in the form of imposts or fines.

These three may be clearly distinguished in law, and even more subtle distinctions may be drawn. But from an economic point of view, the effect is always the same, to enable an army to live on the country it occupies. In the wars of olden times, it was of capital importance that provisions for an army should be procured locally. If local resources ran out, the troops must move on, like a herd of cattle driven to fresh pastures. In time of war the soldier helped himself to what he wanted; he only bought what he could not seize, and he only took with him what he could not buy. All he really

<sup>1</sup> The French title, *Les Fournisseurs*, really means purveyors, and has thus a rather more general sense than the word I have used.—Tr.

needed to take with him were his arms; the rest he could get as he went along.

Apart from arms and ammunition, war supplies, as we now understand the term, are comparatively recent. The armies of antiquity did, it is true, carry with them equipment of all sorts, and from Rome provisions were sent out to the armies beyond the frontiers. But these supplies were so small that they may be regarded as negligible. They did not give rise, like the supply of arms, to any special branches of activity. Up to modern times the provisioning of armies was at the most an occasional trade.

Nowadays the business of contracting for army supplies is often combined with financial and industrial activity, in which case the profits may be very large indeed. The money made by Morgan during the last war is an example of such combined sources of profit. But even contracting alone is sufficiently profitable for considerable fortunes to be made out of it.

#### *Supplies for Maritime Expeditions and Regular Armies*

The first large supplies of provisions were not for land armies, who as we have seen could feed themselves, but for maritime expeditions. In the time of the Crusades, it is true, large quantities of food-stuffs were collected, sufficient to keep the crusades going for some months. But this was done chiefly by compulsory contributions, a sort of tax in kind levied on the population. For the great naval wars of the sixteenth and seventeenth centuries, huge

stores of provisions were needed, as there were often 20,000 or 30,000 men to feed. In 1588 the Spanish Armada sailed with 110,000 cwt. of biscuits, 6000 cwt. of pork, 35,000 gallons of oil, etc. An English fleet of the seventeenth century carried on one occasion 75,000 cwt. of cattle and meat.

Later, with the creation of permanent armies on land, considerable supplies of provisions and other stores were needed. In some countries these armies, maintained even in peace, grew rapidly. In proportion to the total population, the largest was that of Prussia, where, during the second half of the seventeenth century and throughout the eighteenth, between 3 and 4% of the population was kept permanently under arms. In a country of about 5 million inhabitants the permanent army was not far short of 200,000 men, each of whom received 2 lbs. of bread per day. This involved purchases and stocks on a scale hitherto unknown. Supplies were chiefly furnished by the farmers of State lands but sometimes also by private landowners. Army supplies stimulated the development of the great estates to the east of the Elbe, which grew until they gradually acquired the character of the granaries of the capitalist age, while their owners became millionaires.

From the seventeenth century military uniforms began to be introduced in all countries. Thus another class of stores came into being. Supplies of clothing were even more profitable than provisions since it was a business that was more readily concentrated. While provisions were as far as possible procured locally, orders for clothing were placed in

the great industrial and commercial centres, and purchases were made in large quantities. In 1603 the British Government gave an order to the firm of Babington & Bromley for complete outfits for 5000 soldiers. In 1647 the Elector of Brandenburg gave an order to a Hamburg trader, Eberhard Schlef, for 20,000 ells of blue cloth. Orders were also placed abroad, and before long those dealing in army supplies were as international as the armourers. In 1724 Peter the Great ordered supplies from a group of twelve Hamburg merchants to the total value of 300,000 thalers. It is obvious that supplies to distant countries must have been particularly lucrative.

As expenses grew, two methods of procuring supplies were debated. One was for the military authorities to buy their supplies direct. The other was for orders to be placed with intermediaries with whom a contract would be signed giving them a monopoly either for a certain specified class of goods or for the whole supplies required. It was towards the end of the sixteenth century that these contractors appeared on the scene. Since then, the two systems have been used alternatively, and it is difficult to say which has cost the country most. When one method gave rise to sufficient complaints, the other would be tried; and when this in turn proved unsatisfactory, a change would once again be made. The fact is that neither method has been economical.

It must not, however, be thought that it was always the government that was the victim. The dealings of governments have not always been marked

by scrupulous honesty. Not only have officials sometimes feathered their nests by holding up payments or forcing the trader to hand over some of his profits, but even when there was no actual corruption, the government was sometimes a bad debtor. If public money was scarce, the government might try to evade all or part of the payment due by putting pressure on the creditor. If the latter stood up for his rights, he could simply be thrown in prison. There were not many big contractors who in the course of their careers had never seen the inside of a gaol. Few, however, finished up that way; generally it was not very long before they were on their feet once more and renewing their business relations with the government.

### *Carjaval and Medina*

One of the few contractors to reach the end of his career without any unpleasant experiences of this kind was a London merchant of Portuguese extraction, Antonio Fernandez Carjaval. Having made a handsome fortune in the Canary Islands, he had started business in England. In 1649, before Cromwell's expedition in Ireland, he had, in concert with four other merchants, arranged to supply wheat to the army. And during the wars of the next ten years, against Holland, Portugal and Spain, he was continually doing business as an army contractor. He died in 1659, leaving a great fortune, and honoured throughout the country as "the great Jew."

Another "classic" English contractor was the Spanish Jew, Salomon de Medina, but, unlike those of Carjaval, his later days were clouded by scandal. Arriving in London in the same year as William of Orange, he was soon well established as a merchant under the new régime. It was not, however, the new sovereign who was his patron but Marlborough. Medina got on excellently with Marlborough, an expert as the latter was in every sort of financial deal. Medina accompanied his master on his Continental campaigns and undertook on the spot the provisioning of the troops. During the War of Spanish Succession, Medina's turnover was £80,000 a year. His assistants worked at the same time in Marlborough's secret service. The general so far appreciated the services of his contractor that he persuaded Queen Anne to give him a title. This was the first time one had ever been conferred on a Jew in England.

The friendship between these two men was, of course, cemented by money. In 1711 it was revealed in parliament that Marlborough had been receiving £5000 to £6000 a year from Medina. The scandal, which as we saw in Chapter I ended in the fall of Marlborough, also brought to an end Medina's brilliant career.

### *The Pâris Brothers*

It was in France that for five centuries the trade in army supplies might be seen in all its diversity, including all its best and all its worst aspects.

Every possible method was tried, being introduced sometimes by legislation, sometimes by ministerial orders.

From the fourteenth century private merchants existed in France who were entrusted with the provisioning of troops. But this method was a rare exception; normally, provisions were procured by military requisition. In the fifteenth century Louis XI organized a special administrative department, making two commissioners responsible for supplies. A hundred years later, Henry III favoured the system of contractors and created the post of *munitionnaire général* which was the aspiration of every ambitious merchant.

But the method of making contractors responsible for supply did not work out too well. So, after the Thirty Years War, a government department was once more established to organize army supplies. This department was overhauled and strengthened by Louvois, Minister of War under Louis XIV. Nevertheless, whenever it was put to the test under difficult conditions, it broke down and contractors had once more to be called in to help. This gave the latter their chance, and before long they were once more in the saddle.

Among French army contractors, a place in the front rank must be reserved for four brothers whose surname was Pâris, the sons of a small innkeeper in the Dauphiné. Their ability was first proved in 1690 when a French army was engaged in operations against the Duke of Savoy. The regular system of supplies had broken down owing to difficulties of

transport in the Alps. The two eldest brothers took over the work, organizing the transport of provisions across the Alps into Italy. In this they succeeded, at the same time making a fortune. Their services received recognition in the capital, and soon after they were given important posts in the French commissariat. In 1704 Antoine Pâris was appointed Director-General of Supplies for the army in Flanders. The other brothers, too, obtained good official appointments.

But at this period to occupy an official position did not prevent one from doing private business. Under absolute monarchy, the distinction between private affairs and affairs of State was not very clearly drawn. Apart from certain notable exceptions, neither high officials nor their sovereign made a practice of distinguishing between the budget of the country and that of their own household. If they went about it in the right way, they soon got rich. And if they did not overdo it (like Nicolas Fouquet, the Minister of Finance under Louis XIV), they could continue to enjoy every honour and respect. The brothers Pâris were sufficiently astute to be able to combine private business and official duty for years without attracting too much attention.

Conscious of their power, they even had the audacity to pit themselves against the famous inflationist, John Law, whose star was then rising in France, starting a rival enterprise to the latter's bank. Of the two, their business proved in the end the more solid, but for the moment, Law was stronger

than they. In 1720 he was made Controller-General of Finances and he proceeded to banish the four brothers to their native province. Their exile, however, only lasted a few months, for in December 1720 John Law fell and was forced to flee the country with a forged passport. A month later the brothers reappeared in the capital. Their triumph was complete, for, with the assistance of 800 clerks, they were entrusted with the work of liquidating the inflationary system which Law had introduced.

The third brother, Joseph Pâris-Duverney, had, as Intendant of Finances, a particularly important position up to the day when Cardinal Fleury, who had just taken office, started a purge of government departments. An enquiry was ordered into the affairs of the brothers Pâris which resulted in their being accused of speculating in wheat. Once more they were banished from the capital. Pâris-Duverney was even sent to the Bastille for seventeen months. This, however, was only an interlude in the career of the tenacious brothers. A little later, they were again in Paris, and before long we find them once more plying the trade of army contractors just as if nothing whatever had happened.

Even under Fleury's stricter government, they continued to make good profits. Voltaire, a shrewd business man, could find no better way of investing his money than in the commerce of the brothers Pâris. Later Beaumarchais, no less versed in finance, became a partner of Pâris-Duverney. During the War of Austrian Succession, when for once France and Prussia were fighting on the same side, the

whole commissariat of the French army was placed in the hands of Pâris-Duverney. The millions he made in the course of this war still further enhanced his prestige at the Court of Louis XV.

The painful episodes of his career were now forgotten, and he was regarded by all as a great organizer. It was on his initiative that the *École Militaire* was founded for the instruction of young aristocrats, and he was its first intendant. But old as he now was, this task was far from giving sufficient scope for his energies. During the Seven Years War he was once again dealing in army supplies, and he continued this trade to the end of his life.

In France the eighteenth century was marked by a series of scandals concerning army supplies. Sometimes it was the corruption of officials, sometimes it was the dishonesty of the corn merchants. In the end the public became indignant and protests were raised in the army. Little by little the situation became less favourable to the contractors, though from time to time someone would succeed in supplying goods at exorbitant prices and raking in a handsome profit.

The decline of the French colonial empire was a blow too for French army contractors. Thus the Gradis family from Bordeaux, who for generations had been great figures in this trade and had organized supplies for the French army in Canada, suffered a blow from which they never recovered. They were already in difficulties, caused by the fact that the French Government held up their payments, although Louis XV intervened personally on their behalf.

Then the revolt of San Domingo and Martinique led to the closing of their branches in the West Indies and caused them a loss of 3 million francs.

*Supplies during the French Revolution*

During the French Revolution, when France was menaced by foreign intervention, the provisioning of the troops was a question of capital importance. The revolutionary generals tried at first to organize supplies themselves. Thus General Dumouriez, operating in Belgium, endeavoured with the assistance of doubtful contractors to secure provisions locally. One of the strangest figures in the general's suite was a former priest, l'abbé d'Espagnac, who was given a monopoly of transport and who, employing all the tricks of a speculator, managed to make a lot of money.

In Paris this sort of thing was looked on with displeasure. The men the Revolution had brought to the front had resolutely decided to get rid of speculators. Moreover, decentralization was against the spirit of the new régime, which thus could not approve of the local organization of supplies. Cambon, the specialist in economics and finance, denounced Dumouriez's system and got a special committee formed to undertake purchases for all the armies. Dumouriez protested vigorously and even threatened to resign. In a strongly worded letter to the authorities, he maintained that contractors would always rob the State because the latter was so easy to rob, and that centralization would change nothing.

But the authorities thought otherwise, and in November 1792 the committee was established. It consisted of Jacques Bidermann, a banker of Swiss extraction, Marx-Berr, an Alsatian merchant, whose father had been an army contractor, and lastly Jacques-Antoine Cousin, professor of mathematics at the *École Militaire*. But though these three set to work energetically and loyally, it was absolutely impossible, in the midst of revolution and war with half Europe, to nationalize at a blow the organization of supplies. Moreover, there were political intrigues to contend with, and denunciations from dethroned contractors, so that, only nine months after they had started, they were impeached and in these troublous times were lucky to escape the guillotine.

This unfortunate attempt at complete nationalization, undertaken, it is true, under the most difficult conditions, played into the hands of the contractors, who once more secured lucrative monopolies. A young chemist, Armand Séguin, had invented a new process for tanning leather. Up to this time the preparation of leather had taken at least a year. Séguin undertook to do it in a week and perhaps even in a day. In view of the dearth of boots in the French army, the government had not long to think it over. The Convention provided the necessary capital and Séguin started manufacture. The first samples proving more or less successful, he was at once entrusted with the supply of all the boots needed by the whole army. With these profits was built up one of the great Parisian fortunes which survived the Empire.

But besides direct and legal transactions of this sort, there were other lines of business still more profitable. The discipline of the troops was not always of the strictest. Hungry soldiers and officers tried to make a little money in selling at any price they could get the spoils that fell into their hands. If they could lay hands on army stores, they sold them too. This was particularly profitable for the dealers, who could then sell them again to the army commissariat. During Bonaparte's Italian campaign, a large cargo of English goods was seized in the port of Leghorn. The cargo was worth several million francs, but in less than no time it had passed into the hands of contractors who had bought up the goods at knock-down prices. Scandals of this sort became more and more frequent.

The young General Bonaparte tried to make an end of these practices, but he had too many other things to do. Annoyed at his inability to control the contractors, he wrote to Paris: "They steal in so ridiculous and impudent a way that, if only I had a month to spare, there is not one that I could not have shot."

### *The Rise of Ouvrard*

It was during the confusion of these years, while the tumult of revolution was gradually dying down, a period in which thousands tried to glean some profits from the wreckage of the old order and the hasty construction of the new, that Gabriel-Julien Ouvrard, the great financier and contractor of the

Napoleonic age, started on his astonishing career. We have already considered his activities as a financier, but, an able financier though he was, his real trade was dealing in military and naval stores, and it was to this trade chiefly that he owed his fortune.

Ouvrard, who was born in 1770, was the son of a paper manufacturer in a small town in Brittany. When the Revolution broke out he was serving in a grocer's shop in Nantes. The first news of what was happening in Paris awoke his speculative instincts and gave him the idea of striking out on his own. He too wanted to take part in the Revolution, not indeed as a revolutionary, still less as a counter-revolutionary, but as a profiteer of the Revolution. The proclamation of the freedom of the press had for him no moral or political significance whatever. For him it simply meant an increased demand for news print and thus a rise in the price of paper. Instantly, he put his theories into practice. He went round to all the paper factories in the province and, no doubt with his father's money, bought up all available stocks, even going so far as to buy up two years' production in advance. This speculation succeeded marvellously, for the consumption of paper grew to proportions hitherto unknown. Prices rose sharply and Ouvrard made 300,000 francs.

Meanwhile, Nantes was beginning to suffer from a shortage of food-stuffs. Official measures against profiteering were powerless to stop the rise in prices. Naturally, Ouvrard made as usual the most of his opportunities, but it was not long before he was

denounced. This was serious; for in these hectic times a small matter could easily cost one one's head. So he looked for political protection. The Commandant of Nantes, General Boivin, was an old friend of the Ouvrard family, and he promptly made the young Ouvrard his private secretary with the rank of officer. He could now proudly wear the tricoloured cockade and his speculative peccadillos were soon forgotten. This semi-military position was for Ouvrard an excellent spring-board. As soon as the occasion offered, he got himself attached to the general headquarters of the army in the west. Here he was well received, and, soon after, he was given command of a detachment. But his proper military career did not last long, nor does it seem to have exposed him to any great dangers. The day after his first action he was sent to Paris with the flags that had been captured from the enemy, little though he had had to do with their seizure.

This mission of honour gave him immediate access to those in high places. After a little angling, he even managed to get received by Robespierre. His business naturally did not concern flags or banners. What he was after was to raise money to help his necessitous fellow townsfolk of Nantes. At the same time he brought off an excellent stroke of business in getting 200,000 francs from the Comité du Salut Public for his father in compensation for his factory, which had been burnt down during the fighting. The richest merchant of Nantes, Thébaud, did not hesitate to bestow the hand of his daughter on so clever and promising a young man.

Nevertheless, the atmosphere of Paris at that time was hardly favourable to commercial dealings. A mere denunciation and one might find oneself on the scaffold. It was only under the Directory, after the fall of the Convention, that individual rights were once more established and Ouvrard could safely devote himself to commerce. In 1796 he carried through some big deals in food-stuffs, making 500,000 francs in a few months. But such deals did not satisfy his ambitions. Really big business could only be done with the State, and for this it was necessary to get a footing in government circles.

With his usual shrewdness, Ouvrard was soon able to distinguish which of the various people holding office was likely to be of service to him. The man he picked on was a general, Viscount Paul de Barras, who had served in colonial regiments, and who had been active as a government agent under the Terror. Now he was a member of the Directory and was once again the *grand seigneur*. He needed a lot of money to live the life he did and he would certainly be ready to listen to men of Ouvrard's stamp.

Madame Tallien, who was later a favourite of Ouvrard's, was at this time a friend of Barras, and it was in her salon that the two men got in touch. They were soon on visiting terms, and friendship bore its fruits. Placed in charge of the war department, Barras introduced an important reform: victualling ought to be placed in the hands of a single contractor. In the army the scheme was not easy to realize. There were so many merchants in the field that a monopoly could not be introduced

without a struggle. But it was quite otherwise in the navy.

Ouvrard, who had himself suggested the reform, was invited to give an expert opinion. With admirable objectivity he pointed out the economies that could be effected by an able and honest contractor, and he was thereupon given the monopoly of all naval provisions. The yearly turnover was 64 million francs, and to guard against any possible depreciation of notes, Ouvrard managed to get his deliveries paid for in specie.<sup>1</sup>

### *Ouvrard's Fortunes Fluctuate*

In the same year, 1797, the victualling of the allied Spanish fleet was also entrusted to Ouvrard. Acting through an agent, he started at the same time dealing in provisions for the army. His fortune accumulated rapidly. Out of the Spanish deliveries alone he made 20 million francs in a few years. The bulk of his profits were invested in houses and landed estates. Mostly they were the old residences of nobility which had been seized during the Revolution and were now being sold by the Directory at absurdly low prices. Ouvrard himself went to live in the Château du Raincy near Paris which had belonged to the Duke of Orleans.

Everything went well with Ouvrard until the day when Napoleon came into power. The latter, as we have seen, had no love for contractors. In January 1800, two months after the fall of the Directory,

<sup>1</sup> Otto Wolff, *Die Geschäfte des Herrn Ouvrard*, p. 54.

Ouvrard was arrested and a searching enquiry was made into his dealings in naval supplies. He was relieved of his functions and obliged to pay 14 million francs to the government until such time as his accounts were fully audited. A few days later, however, he was liberated and was soon negotiating with Berthier, the Minister of War, on the subject of the new campaign projected in Northern Italy. The biggest contracts had already gone to Vanlerberghe, a corn merchant of Belgian extraction. But Ouvrard managed to get a part, and from now on he worked in close collaboration with Vanlerberghe.

Two years later, when there was once more a shortage of food and the looting of shops had already started in the provinces, Napoleon sent for the much detested contractor and ordered him to take matters in hand. Ouvrard, exceedingly flattered at this sudden rehabilitation, declared himself prepared, out of sheer patriotism, to ask only 2% commission on all purchases. The year following, he even became once more contractor to the navy.

In the preparations for Napoleon's struggle with England, the supply of military and naval provisions became once more a matter of great importance. But the government was not over-quick with its payments, and before long, 68 million francs were owing to Ouvrard and Vanlerberghe. This delay in settlement plunged Ouvrard into financial difficulties and he was obliged to sell some of his estates. But this did not prevent him shortly afterwards assuming the rôle of financier to the government. To add to what the government already owed him, he now

lent 50 million francs. This loan proved insufficient and in June 1804, just after Napoleon's coronation, Ouvrard promised the minister of finance a further 150 million which he would raise in collaboration with Vanlerberghe, Séguin, the boot manufacturer, and the Michel brothers, the latter being contractors who had had a very doubtful reputation under the Directory.

This was a very complicated business, and it is not altogether clear from what source Ouvrard was expecting to procure so much money. It was hardly possible that it could have come from France itself, for the economic condition of the country was far from good. Probably he was counting on the fortune he was expecting to make on a big deal in Spain, where terrible famine prevailed notwithstanding the fact that the country possessed untold wealth in Mexico.

To pave the way for the projected deal, Ouvrard despatched provisions to Madrid and advanced money for the upkeep of the Court. Having thus prepared the ground, he disclosed his real ambitions, and the Spaniards fell in with his plans. Like a conquistador of the age of Columbus, he was given a trading concession with America. In return, he was during the war between Spain and England to bring over from Mexico all the gold and silver that was wanted. To meet the running expenses of his fantastic project, he was then and there given bills of exchange on the Spanish treasury to a value of 52 million pesetas.

The problem now was how to get these bills discounted. He went to Henry Hope in Amsterdam.

Hope & Co., which the latter represented, was the largest and most solid commercial house on the Continent in Napoleonic times. The Hopes were connected with the Barings, the great London bankers. They had agents all over the world. This firm was in fact the only one which could have made practical use of the concession Ouvrard had secured. After some hesitation, Henry Hope promised to take the matter up.

Everything promised well when trouble suddenly arose in Paris. After the English victory of Trafalgar, financial panic reigned in the French capital. Bankruptcies occurred on every hand, and the Bank of France was besieged by anxious depositors. Banknotes fell rapidly in value. The finances of the government were in the most critical state.

The Emperor, then in the field against Austria, hurled abuse and insults at the financiers. While he was leading the French troops to victory at Austerlitz, they were trying to put a spoke in his wheel. All right: they should pay for it! On his return in January 1806, he proceeded to make the most searching enquiry. Ouvrard's promises to get money from Spain turned out to have been the merest castles in air. Worse still, his confidant, Duprez, had taken advantage of his position at the Bank of France and had fraudulently converted several millions of the bank's money.

Thus, Napoleon discovered that, in spite of his principles and his past experience, he had allowed himself to be the victim of a band of speculators and usurers, from whose meshes he could only get free by the use of force. Accordingly, he arbitrarily

reversed the rôles: it was now no longer the State which was the debtor to the contractors and the bankers, it was they who had given undertakings to the State which they had not fulfilled. There was no longer any question of negotiating, the Emperor issued his decree. These financiers were to repay 87 million francs to the treasury. If they either could not or would not, Ouvrard and all his clique would be imprisoned in the Tour de Vincennes.

Ouvrard realized that, for the moment at any rate, his game was lost. So he promised to pay all that was asked. And in fact in the course of the next years, he and his associates managed to pay off the greater part of their debt in supplies to the army and navy; and this in spite of the fact that Napoleon had subsequently raised their debt from 87 to 141 million francs. But having paid the greater part, Ouvrard sought to escape the rest by going into liquidation. He certainly hoped that the remainder owing would fall into oblivion. Napoleon, however, had a prodigious memory concerning all matters that he had dealt with personally, and in July 1809 he unexpectedly issued a warrant for Ouvrard's arrest. At the same time he cancelled all contracts for army and navy supplies, every branch of which was now nationalized once more.

#### *Ouvrard and the Restoration*

With brief intervals, Ouvrard spent the next four years in prison. It was, however, a very mild incarceration. He obtained permission to furnish some

of the prison rooms according to his taste, and one of them he made his office. Prison doors did not stop him doing business. And when they were in difficulties even the government came to consult him. When, for example, in the spring of 1812 a shortage of food was felt once more, the Prefect of Police of Paris came to him for advice. And with his unrivalled experience in such matters, Ouvrard promptly outlined a complete scheme for provisioning both the army and the civil population. At the same time he sketched out a plan for the commissariat of the Russian campaign, a plan, however, which never reached the Emperor.

Two years went by before Ouvrard was once more in business as army contractor. Under the first restoration, while Napoleon was at Elba, he secured, acting through an agent, the whole government supplies of provisions and fodder. His friends, the Hopes of Amsterdam, advanced him the necessary money. When Napoleon returned from his first exile, Ouvrard's financial position was sufficiently re-established for him to be able to offer the Emperor a substantial loan. His triumph now amply compensated for his prison years for he was appointed *munitionnaire général*, in charge of all purchases of army supplies of all kinds.

The government installed after Napoleon's final downfall at first regarded Ouvrard with disfavour, for the latter wanted to take up some guarantees which Napoleon had given him for his last loan. But it was not long before he was on good terms with the new régime. He participated in the issue

of a loan effected by Baring's of London and Hope's of Amsterdam to finance the payment of the reparations imposed on France. He also furnished provisions for the Allies' army of occupation in France.

During the war in 1823 between France and the revolutionary government in Spain, Ouvrard once more secured the victualling of the French army. But the contract which he signed with the commander-in-chief, the Duke of Angoulême, was this time really too one-sided. The government undertook to hand over to Ouvrard all supplies already collected by the military authorities and, moreover, to advance him considerable sums of money. In fact, the government took all the risks. This time Ouvrard once more overstepped the mark. When this minor campaign was over, and the Chamber of Deputies came to look into its costs, Ouvrard's contract came in for detailed scrutiny. It was then revealed that of the 50 or 60 million francs expended on provisions, 33 millions had gone into Ouvrard's pocket. After checking every wagon of hay and drawing up a report of 2000 printed pages, the commission of enquiry came to the conclusion that Ouvrard's operations had been gravely prejudicial to the nation's interests.

Now that public opinion was definitely hostile to Ouvrard, it was an excellent opportunity for his enemies to pay off old scores. Séguin, his former associate, succeeded in getting him arrested for an irregularity which had occurred twenty years previously. Soon afterwards proceedings were also

started against him on account of the Spanish supplies. But they dragged on interminably, ending five years later in an acquittal. During all this time Ouvrard remained in prison, whiling away the long days in writing his memoirs.<sup>1</sup>

When he was finally released, Ouvrard, then approaching sixty, plunged into business once more. As a contractor he was finished for good, but there were other ways of making money, and he devoted the remaining sixteen years of his life to speculation in *rentes*, sometimes in Paris, sometimes in London and sometimes in Holland.

His old associates did not cease to attack him, and Ouvrard was imprisoned once more. In the end his luck seemed to have abandoned him. Whereas at the beginning of this period he carried through big and successful deals on the *Bourse*, even in opposition to the Rothschilds, his later speculations were on a much smaller scale and less and less fortunate. And when at the age of seventy-six he died in London, though he was still comfortably off, his death passed unobserved. Although in many ways Ouvrard was very modern in his methods, he nevertheless belonged to a period that was over. His mentality was really that of the schemers of the seventeenth and eighteenth centuries who wandered about Europe hawking their marvellous projects from court to court. For Ouvrard a government was merely a subject for exploitation. It was none the less the focal point of all his operations. He believed firmly in the superiority

<sup>1</sup> *Mémoires de G.-J. Ouvrard sur sa vie et ses diverses opérations financières.*  
Paris 1826-1827.

of the private capitalist and had only contempt for bureaucracy. Yet the idea of an economic field of private enterprise quite outside the orbit of State finance—the notion so dear to the nineteenth century—was altogether strange to him. He was thus perhaps the last typical *munitionnaire* of the old style.

The period which followed, at any rate in Europe, was relatively peaceful. Wars were short, and widely separated in space as well as time. In times of peace the military authorities made their own purchases. Certain branches of industry and trade might indeed do good business with the services, but this was only a small part of a nation's business and demands no special place. The total volume of trade in naval and military supplies was, for instance, less than that created by the construction of railways. From now on there were only two business groups whose dealings with governments were on a really big scale: the armament manufacturers and the bankers.

### *The American Civil War*

It was quite otherwise in America. There the Civil War provoked an economic upheaval far more serious than was caused by all the European wars between 1815 and 1914. A huge country which was just feeling its way towards economic unity found itself cut in two by the war between the North and the South. In the North there was a surplus of corn but not enough clothing; in the South too much

cotton but not enough to eat. Many products were lacking on each side.

The country was in no way prepared for war. Everything had to be improvised; and this was at a time when a vast migration was in progress. Hundreds of thousands were setting out westwards to find new lands or in the search for gold or silver. While 500,000 men were being killed in the field, 800,000 pioneers were moving west. The monetary system collapsed under the strain. In the North the "greenbacks," as the new bank-notes were called, depreciated by 50%, while in the South paper money fell to a twentieth of its face value.

In these chaotic conditions a bold profiteer could carve out a career. At first, everyone was disconcerted and discouraged. Banks suspended payment. In the North, 12,000 businesses went bankrupt. But this depression soon gave place to a hectic war boom. A million dollars, which till now had been a figure inspiring the deepest respect, was now the aim of every bold adventurer in the business world. Before the war the number of millionaires in the States had not even reached a dozen, but during the war hundreds of people amassed fortunes of several million dollars.

The magnates of big business, who during the second half of the nineteenth century attained the summits of plutocracy, had nearly all laid the foundations of their fortunes during the Civil War. We have already seen how John Pierpont Morgan at the age of twenty-four started his traffic in arms, buying and selling old rifles at a profit of 500%.

Another was Andrew Carnegie, the great industrialist, who was twenty-six when the war broke out. He was then working in the Pennsylvania railway under T. A. Scott. When the latter was appointed assistant secretary of war, in charge of military transport, he took the young Carnegie with him.

Official responsibilities did not prevent either Carnegie or Scott from doing business on their own account. On the contrary, the positions they occupied in the ministry of war gave them excellent opportunities. Carnegie was, for example, in a position to notice the dearth of rails and of good bridges. So, in the middle of the war, he proceeded with Scott to found a company for the construction of bridges and the manufacture of rails.<sup>1</sup> In his situation it was not difficult to procure orders for the company, and the business extended rapidly. As the price of iron soared during the war, Carnegie founded some wrought-iron works. It was from these two businesses that the huge steel concern grew which Carnegie was to sell to Morgan in 1901 for 447 million dollars.

Then there was John D. Rockefeller. From the age of twenty he had been working in a small commission agent's business in Cleveland docks. During the war business flourished, particularly the shipping of cereals along the great lakes. Rockefeller invested his profits in another line of business, oil, far more lucrative though at that time little developed. In the course of the war the price of oil went up

<sup>1</sup> *Autobiography of Andrew Carnegie*. Boston and New York 1920, p. 115.

from 10 cents a barrel to 8 dollars, so Rockefeller's capital grew fast. At the end of the war Rockefeller was already in a position to buy out his partners at a price of 72,500 dollars. When he needed new capital to enlarge his plant, he got it from Stephen Harkness who had during the war become the richest man in Cleveland by selling rum and whisky.<sup>1</sup>

All those who at this period made a fortune in America owed it to the war. John Wanamaker, the owner of the great department stores, began by dealing in military stores. He supplied blue flannel to the Federal army, and the money he made in doing so formed the basis of his immense fortune. Like other dealers in war material such as Nobel and Carnegie, Wanamaker became later an ardent pacifist. After the last war a monument to his memory was erected in a public place in New York, a star perpetually illuminated whose rays were to call people to perpetual peace. It is perhaps not without symbolic meaning that among the lights of the huge metropolis this eternal star should seem no brighter than a modest candle.

*“Shoddy Aristocracy”*

The supplies delivered during the American Civil War justified once more the motto according to which you make money, not out of what you deliver, but out of that which you fail to deliver. Constant efforts were made to deceive the government concerning the actual quantities supplied. Nevertheless,

<sup>1</sup> John R. Wuckler, *John D. Rockefeller*. Berlin 1930, p. 69.

the trickery of which the government was the victim concerned chiefly the quality of goods. Obsolete weapons, porous leather, inedible provisions and diseased horses were all supplied, and dishonesty did not even spare the wounded. The multi-millionaire, A. B. Farquhar, who in his youth had been engaged in the business, gives in his autobiography some graphic details.<sup>1</sup> Stretchers, for instance, were made of old laths which were constantly breaking. Some serious cases died as a result of the falls to which the wounded were thus liable.

Those who engaged in these practices were, however, impregnable. They formed amongst themselves a sort of syndicate which could see to it that government inspectors were adequately bribed. But Farquhar managed to get an audience with one of the authorities and he took with him one of the defective stretchers inviting the official to lie down on it. Needless to say, the stretcher duly broke and Farquhar was given an order for an article of better quality.

Of course the military authorities were not blind to this state of affairs. But they did not dare make a row, for all war material was scarce and they feared to make it scarcer. Short of everything, they accepted all that was offered, and those who had been bribed winked at even the most barefaced swindle. There thus rose to fortune in America a whole class of people who were named, after their goods, the shoddy aristocracy. Subsequently, parliamentary enquiries were instituted which revealed the

<sup>1</sup> A. B. Farquhar, *The First Million the Hardest*. New York 1922.

gravest abuses. But the American Government was more lenient than the French Government had been to Ouvrard. Not one of the big profiteers was sent to prison. Action was only taken against a few small agents and subordinate officials.

### *Transport Profits*

The largest profits realized during this war were derived, not from supplies themselves, but their transport. The railway companies found themselves in a particularly good position to take advantage of the situation. Cameron, the Federal minister of war, had himself an interest in them; so had Scott and Carnegie. And they managed to make the government pay 50% more for transport than did the general public. Thus Scott's company, the Pennsylvania railway, was able during his first year of office to show an increase in profits of 1,300,000 dollars.

It was much the same with shipping companies. In this field, the great man was Cornelius Vanderbilt. At a time when Morgan, Rockefeller and Carnegie were only starting, he was already getting on for seventy and one of the richest men in America. In later life he turned to railways, but before then he had made a fortune of several million dollars from his shipping lines.

In 1862, when the Federal Government decided to undertake an expedition against New Orleans, the principal southern port, they turned to Vanderbilt, as shipping expert, asking him to get together the

necessary ships. In a short time he had chartered a whole fleet. For it he charged the government double what he had paid to the smaller shipowners who had supplied the vessels. Moreover, here as elsewhere, the material supplied was deplorable, some of the ships being so rotten that it was highly dangerous for them to put to sea. A commission of enquiry, set up to investigate the matter, put all the blame on a man called Southard, an agent of Vanderbilt's, and exonerated the latter from all responsibility.

The blockade of the Southern States rendered navigation in southern waters dangerous, but it was all the more lucrative on that account. The Confederates were prepared to pay anything for imports. Ships that succeeded in running the blockade with war material could make £30,000 on a single cargo. If two ships got through for every one captured, the shipowners did not need to worry over the loss. In fact the business was so attractive to investors that in the Southern States 50 or 60 million dollars was invested in it.

Transport profits rose so high during the blockade that foreign capital was attracted. In 1863, when the outlook was already none too bright for the Confederates, the French bank of Erlanger issued in Europe a loan of 15 million dollars for the Southern States. The latter were to guarantee the loan in stocks of cotton. The loan was to be used to purchase ships and war material. In fact, it turned out to be one of the strangest war transactions that the world had ever seen. Of the 15 million dollars,

5 million was spent on ships that never reached America, while 7 million was used for the service of interest and for maintaining the value of the loan on the *Bourse*, so that only one-fifth of the loan was left for the borrowers. On their side, when the Confederates started to buy the cotton which was to be the guarantee, the strain on their currency was so great that it collapsed.<sup>1</sup>

From this time onward, shipping remained one of the most profitable businesses in war-time. For a war gave shipowners the opportunity of selling or letting at inflated prices old ships that were not worth much to their owners.

### *An Army on a Cook's Tour*

A peculiar transaction in war transport was one between the British Government and the firm of Thomas Cook. From 1871 it was being seriously considered whether the colonial transport of troops should not be entrusted to Cook's, who could do it cheaper than the government could. Thirteen years later, when England was preparing an expedition to the Soudan, the plan was put into execution.

Even before the British became predominant in Egypt, Thomas Cook, founder of the firm, and his son John Mason Cook, had won for themselves a peculiar position in that country. They were responsible for the regular steamboat and postal services on the Nile, and as "passenger agent" to the Khedive

<sup>1</sup> H. U. Faulkner, *Amerikanische Wirtschaftsgeschichte*. Dresden 1929, vol. ii, p. 62.

they enjoyed a virtual monopoly in all matters of transport.

After the battle of Tel-el-Kebir in 1882, Cook's had already undertaken the transport of the wounded to Alexandria. Two years later, when the British gathered their forces to strike a decisive blow in the Soudan, the government put the whole of their transport into Cook's hands. Under their organization, 18,000 men and 130,000 tons of war material and provisions were sent up the Nile in 28 steam-boats and 800 smaller vessels. The expedition arrived too late to save Gordon, but that was not their fault, and the expedition won them a considerable reputation as well as bringing them substantial profits.

Nevertheless, the experiment of arranging army transport by monopoly has never been repeated, though during other colonial campaigns, the British Government has called in the services of shipping companies. During the Boer War, John Ellerman, the shipowner, was very active. Already during the Spanish-American War of 1898 he had made very profitable use of his ships. Now that his own country was at war, he promptly put all his ships at the disposal of the government.

The money he made during the South African War ran into hundreds of thousands of pounds. When it was over he sold his most important concern, the Leyland Line, to an American group headed by Morgan. The million pounds he made on this deal were at the opportune moment put into other shipping companies.

Nor did the older and more important shipping companies disdain the opportunities which wars offered. During the Russo-Japanese War the Hamburg-American Line, the largest German shipping company, did very good business with Russia. Already towards the end of 1903, when the situation in the Far East was threatening, the head of the firm, Albert Ballin, sent his representatives to Petersburg to persuade the government to buy ships.<sup>1</sup> A few months later—war having meanwhile broken out—a deal was concluded by which the Hamburg-American Line were relieved of 15 of their old ships at prices no one in Hamburg would have dreamt of paying.

Then when the Russian Government decided to send the Baltic fleet round to the Far East to relieve Port Arthur, the Hamburg-American Line undertook to supply the fleet with coal during the whole of its voyage. To carry out this difficult job the Germans had to charter foreign vessels. In all, 80 colliers set out to coal the Russian fleet, some going through the Suez Canal while the greater part went round the Cape. Little good though this voyage did for the Russians, the Germans at any rate were handsomely remunerated. The profits shown by the company for the two years of the war rose from 22 to 38 million marks. Dividends were increased from 6% to 11% and there was still enough money kept in hand to replace by new and sumptuous vessels the old ships that had been sold to Russia.

<sup>1</sup> Kurt Himer, *Geschichte der Hamburg-Amerika Linie*. Hamburg 1927, vol. ii, p. 81.

*The Shipping Boom in England*

During the last war the position of the shipping companies was entirely different on the two sides of the front. The German and Austrian companies were from the first days of the war completely paralysed, and remained so till hostilities came to an end. Albert Ballin, though not himself a large shareholder in the Hamburg-American Line, was driven to despair. On November 9th, 1918, at the very hour when his friend, the Kaiser, fled the country, he committed suicide.

With the Allies, on the other hand, it was just the opposite. French, and still more Italian companies paid out dividends with both hands and distributed bonus shares. But this was nothing compared to the boom in English shipping. The English merchant marine had not only to bring food and raw materials to Europe from all parts of the world and troops from all parts of the Empire, but had also to carry the endless cargoes of war material coming from the United States.

As their commerce gradually increased during the nineteenth century, the Americans had given up the attempt to cope with it with their own shipping. On the eve of the Civil War as much as two-thirds of their overseas trade was carried in their own ships, while by 1900 it had fallen to 7%. At the beginning of the last war their total shipping for external commerce amounted only to half a million tons. This was a negligible quantity considering the volume

of trade to be carried. Thus the English shipowners found themselves without a serious competitor.

The British Government, on whom devolved directly or indirectly the cost of war transport, remained faithful to the principle of the free market. The question did indeed arise, whether the government should not requisition the shipping it required, but the free market won the day. The methods current during the Napoleonic wars and the Boer War remained practically intact: freights were to find their own level according to the law of supply and demand. Considering there was great demand for ships and comparatively little supply, the shipowners had it all their own way and could charge the government pretty well what they liked. From 1914 to 1917, the price of chartering ships rose from 3 to 50 shillings per ton.

Under these conditions the purchase price of ships rose at the same giddy rate. There was a rush for even the oldest freighters so as to take advantage of such a golden opportunity. Shipping companies big and small were buying and selling ships to one another at fantastic prices. For £5,000,000 the Cunard Line acquired the Commonwealth and Dominion Line, whereas the capital value of the latter company was no more than £2,000,000 at the outside. The Cuban Steamship Company sold three ships for a sum of £325,000, whereas they had originally cost £190,000 and their value had since been written down to £96,000 on the company's books. But these were relatively modest prices. In 1917 Alfred Holt's paid £600,000 for four old ships

of the Knight Steamship Company which were valued on the latter's books at £80,000. On the average, the price of ships increased fivefold.

Even at the highest prices, the purchase of ships appeared a good economic proposition. The profits of passenger lines were doubled or trebled, while the profits from freighters increased tenfold. Net profits on English shipping totalled £20,000,000 in 1913; in 1916 the figure was £250,000,000. After deducting the excess profits duty, which brought the Treasury £115,000,000, the balance of profit was still 67% on the invested capital.<sup>1</sup>

It was only when prices reached extravagant heights and the shipping companies had made £300,000,000 in the first two and a half years of the war that the government began to think of taking action. Then Lloyd George started to enforce stricter control, and in June 1917 the government proceeded to requisition ships and fix the freights. Even so, business was still profitable enough for the shipowners, though during the last year of war the increase in total tonnage began to be felt. For ships were being built much faster than they could be sunk by the German submarines.

The reaction in shipping as soon as war transport ceased was bound to be considerable. In fact the only shipowners who came through with their fortunes intact were those few who had refrained from greatly enlarging their fleets, and who had prudently invested their profits in other fields. Foremost among them

<sup>1</sup> Ernest Fayle, *The War and the Shipping Industry*. London 1927, p. 180.

stands Sir John Ellerman. He had, it is true, enlarged his fleet, but he did not wait till too late to invest a considerable part of his fortune elsewhere, buying blocks of houses in the West End. While shipping prices collapsed after the war, house property, particularly in central London, never stopped rising. In 1929 Ellerman's fortune was estimated at £35,000,000. His wealth eclipsed that of the wealthy English aristocracy, and even Sir Basil Zaharoff was not to be compared with him. Then the economic crisis supervened which reduced even the most wisely invested fortunes. Nevertheless, at his death in 1933, he was able to leave a fortune of £30,000,000, being thus the richest man in England, probably in the whole of Europe. His death duties, as may be imagined, were a windfall to the Treasury.

### *Profits of the Neutrals*

Though not to be compared with the English shipowners, those of the small neutral powers did very well. Shipping dividends in Holland rose from 10 or 20% in 1913 to 50 or even 100% in 1916. In Sweden the profits of three companies rose during the same period to seven times what they had been. In Norway profits rose to four times, and in Denmark sixteen times, what they had averaged before the war.

It is characteristic of these countries that with them the carrying trade was combined with trading itself. Like ancient maritime companies, the shipping firms often bought cargoes on their own account and carried them to belligerent countries. In this way

they supplemented their proper shipping profits. In Germany, above all, fantastic prices were paid for anything that could be run through the blockade. In the neutral countries many fortunes were made from the trade in war supplies. According to fiscal statistics, 367 names were added to the list of Dutch millionaires in one year.

In neutral countries, as elsewhere, easy profits led to wild expansion. A profusion of new businesses came into being. In the Scandinavian countries, usually so prudent, the shipping boom overstepped all reasonable bounds. 3000 new companies were floated there, shares being issued to the tune of 2000 million crowns. In Norway, poor as the country was, 70 new banks were founded, and the value of shares issued was 500 million crowns. As for Denmark, she plunged into a particularly risky venture in trying to profit by the eclipse of Hamburg to make Copenhagen the foremost commercial city of the North.

In 1916 a transatlantic import and export company was founded at great cost under the auspices of Glückstadt, the banker, which was to blaze the trail of Danish commerce throughout the world. Over fifty branches were opened in foreign countries. But business did not fulfil expectations. The German submarine campaign, becoming more and more intensive, hindered the company's activities. Worse still was the collapse of Russia, for until it occurred it was with that country that the company's business had been most successful. A considerable debt had piled up with the Russians, and this was, of course, a

total loss. This was the reason why Glückstadt entered the field against the Soviet Government, financing General Youdenitch's march on Petrograd. This counter-revolutionary venture failed, however, and with it all hope of the Danes recovering their money was extinguished.

Glückstadt's many other enterprises and speculations were hardly more fortunate, and, once the war was over, he had to throw his hand in. The losses of the transatlantic company, amounting to 200 million crowns, involved the failure of Glückstadt's bank, the Danske Landmannsbank. In the end the government had to come to the succour of depositors, paying out 300 million crowns. Glückstadt, who before the war was one of the richest men in Denmark, and during the war was regarded as the Croesus of Northern Europe, died in prison in 1923.

Rather more solid success rewarded the activities of the Dutchman, August Kröller. With his shipping company, Wm. H. Müller & Co., as nucleus, he succeeded in forming a huge combine of commercial, industrial and financial concerns. Already before the war, Müller's had been closely in touch with German heavy industry, providing ores from Spain, Morocco and Sweden, especially to Krupp's. The ores were carried in the firm's ships, and came in part from the firm's own mines. During the war Kröller continued to trade with the Germans so far as this was possible. At a time of the greatest scarcity he provided them with Argentine wheat.

The great profits which this business brought him enabled him to strengthen his position in the

Rotterdamsche Bankvereeniging and in the merchant banks controlled by it. He also acquired a substantial interest in German heavy industry. Losses after the war, however, particularly in shipping, were so considerable that in 1925 Kröller was obliged to reduce his group to much smaller proportions. A few years later, only a modicum was left of what had been probably the greatest war fortune of the neutral countries.

### *War-time Trade in Germany*

In the industrial field—apart from the arms industry—it was in Germany that the greatest profits were made during the first part of the war. While in allied countries profits were limited for a variety of reasons, and in America a trade depression occurred, all the German industries flourished from the start, adapting their output to war-time needs. The government had no desire to restrict profits: on the contrary, it encouraged them as a stimulus to production. The military authorities, who now held the reins, had laid it down as a principle that money did not count.<sup>1</sup>

The industries were few which, like the gas and electric light companies, had no part, direct or indirect, in war supply, and were thus unable to turn the occasion to advantage. If we compare the percentage profits of German companies in 1915 with those of the year before, we get an idea of the general

<sup>1</sup> Ludendorff, *Kriegsführung und Politik*. 2nd ed., Berlin 1922, p. 122.

increase in prosperity. Profits in the leather industry rose from 20.3 to 37.7%, in oils and fats from 15 to 20.3%, in textiles from 14.7 to 23.8%, in timber from 5.5 to 10%. Even many industries and trades which would seem to have nothing whatever to do with war flourished with the rest. For instance, the mobilization of millions of men, who were given military training or held in reserve in overcrowded barracks, brought prosperity to hotels and restaurants. In the catering trade profits rose from 6 to 11.4%.<sup>1</sup> All this relates to a time when the value of the German currency was still more or less intact.

Later, when the blockade caused an acute scarcity of goods, the picture changed. Businesses now had to submit to a rigorous control of prices. On the other hand, hundreds of thousands of people, if not millions, particularly in the country, made money in evading the regulations and selling their goods clandestinely at exorbitant prices. Accordingly prices were very unequal.

Then came the depreciation of the mark, which by the end of the war had fallen 40%. In spite of innumerable rules and regulations, business became more and more speculative and large sums of money were made. But after the war, when the currency collapsed in Germany and several other countries of Central and Eastern Europe, most of the war-made fortunes were quickly dissipated. The only ones to conserve their fortunes were those, like Hugo Stinnes, who realized in time what inflation was going to mean, and took steps to meet it.

<sup>1</sup> R. Lewinsohn, *Histoire de l'Inflation*. Paris 1926, p. 56.

*Morgan's Monopoly*

The United States possessed in abundance most of the things which Europe needed. In spite of the lack of shipping, difficulties in transport could be overcome. There was only one problem to solve: in what way were the belligerents to pay for their purchases? England, as we saw in Chapter II, was the first of the Allies to get over the difficulty by making all her purchases through J. P. Morgan, who was in a position to arrange for their financing. Morgan's partner, Henry P. Davison, is generally given the credit for this plan. The deal was concluded at the end of January 1915, and Morgan was officially appointed commercial agent of the British Government in the United States, with exclusive control over all purchases there. This was the biggest contract that had ever been signed.

A monopoly such as this was bound to give rise to criticism both in England and America. Both countries believed, at all events theoretically, in free competition. In the United States there were a whole series of laws in existence whose object was to prevent monopolies. But Davison was just the man to get over such obstacles. Before the war, when the Senate started an enquiry into Morgan's money trust, it was Davison who had pleaded the cause of the old John Pierpont Morgan. This time too he managed to get round every difficulty. He even came over to London to soothe importers who

regarded Morgan's monopoly as an infringement of their rights. In parliament, Lloyd George, then Chancellor of the Exchequer, stoutly defended the scheme.

Lloyd George went further still and warmly recommended the allied powers to take the same course. To unify as far as possible orders for war material, a conference of finance ministers of France, Russia and England met in Paris early in February 1915. Although it was too early to judge the success of the scheme, Lloyd George nevertheless insisted that both France and Russia should conclude similar contracts with Morgan's bank.<sup>1</sup>

Although the methods by which France had so far made her purchases in America had been none too successful, the French Government did not jump at the suggested monopoly. The question was submitted to a detailed examination which lasted several months.

Meanwhile J. P. Morgan had come himself to Europe. But he was in no hurry to sign contracts with the Allied governments. He did not wish to accept the post of commercial agent for the French Government until France and England had come to an arrangement about the financing of orders. On April 30th, 1915, this matter was settled, and France signed a contract with Morgan very similar to that which England had signed. It is true that all orders placed or contracts signed by Morgan in the United States were subject to the approval of the French

<sup>1</sup> Lucien Petit, *Histoire des finances extérieures de la France pendant la guerre*. Paris, p. 335.

Government. But this reservation did not really interfere to any extent with Morgan's extraordinary powers.

When Morgan came to place his orders, he did not do so indiscriminately. He would not have been the business man he was if he had not addressed himself in the first place to those firms which were under the control of his own bank. Some of the orders he placed with them ran into many millions of dollars. One order alone is said to have amounted to 67 million dollars.

Up to the summer of 1917, when the American Government began itself to take a hand in the question of war supplies, orders from the Allies to the tune of 3000 million dollars had passed through Morgan's hands. The Senate Commission enquiring into the trade in arms got an indignant denial from Morgan to the suggestion that he was in any way responsible for bringing America into the war. His argument: "Getting into the war meant we would lose that business" was certainly not without its logic. "Nobody could hate war more than I do," he told the Commission. But the profits he drew from his monopolies must surely have softened a little this hatred. According to his own version, he received a commission of 1% on the orders placed for the English and French Governments, which would mean his getting 30 million dollars. But this is a somewhat conservative figure. According to the Commission itself, Morgan received  $1\frac{1}{3}\%$  on English orders, totalling nearly 1500 million dollars, and just over 1% on French orders, totalling 1000 million.

Besides the business done with England and France, a considerable amount was done by him with Russia, Italy and Canada.

The commissions he received, however, were only one source of profit. Morgan must have made at least as much again in trading with himself, that is to say in placing orders with companies of which he was a shareholder. Indeed, the remarkable thing about the whole business is that a monopoly of this sort should be given to one who was both buyer and seller at the same time.

The efficiency of Morgan in organizing army supplies for the Allies has often been extolled, and it is quite certain that both as financier and industrial organizer he did much useful work, but the question remains whether this centralized system of purchases was as economical for the Allies as Lloyd George made out. As to whether the allied governments could have done better by buying direct instead of through Morgan, only guesses can be made. One thing, however, is certain: that Morgan, though the agent of the Allies, made no effort to beat down the prices of the goods he was buying for them. In fact it was just in those branches of industry where he was himself an interested and influential party that the rise in prices was most considerable. The export prices, for instance, of iron and steel rose to four times what they had been; and the principal source of these products was the United States Steel Corporation which Morgan himself controlled.

*War Millionaires in America*

The export of arms and munitions, and raw material for the manufacture of these in Europe, amounted to only just over half the total exports destined for the allied armies. The remainder was chiefly concerned with food and clothing. The proportion of the latter exports to France was somewhat higher than for England. Between 1915 and 1918 French imports from the States were 3600 million francs in cereals and 3000 million francs in cotton, the total of these sums being about equal to imports of arms, munitions, etc.

The huge sums paid by the Allies for agricultural produce was due not only to the large quantities required but still more to the continual rise in prices. Prices of cereals had already risen 350% when in 1917 the American Government intervened, fixing the price at 250% above the 1914 level. The profits which these high prices represented were, it is true, spread amongst millions of farmers. All the same, a considerable part went into the pockets of speculators and middlemen. The canning industry too made huge sums of money. The profits of the four largest concerns in Chicago, Armour's, Swift's, Morris's and Cudahay's, rose from 19 million dollars before the war to 36 million in 1915, 55 million in 1916, and 87 million in 1917. In this last year, Morris's profits were two and half times its share capital.

Accustomed as Americans were to bursts of hectic

prosperity, the war boom appeared to them unprecedented. Even the old men, who could remember the delirious days of the Civil War, were overwhelmed by the spectacle of this flood of profits. And this time fortunes could be made with every honesty and scruple. It was not necessary to sell unserviceable rifles or diseased horses. Merchants could deliver the goods and do it handsomely, the price paid was always more handsome still.

Nevertheless, the popular idea that everyone in America did well out of the war must not be taken too literally. Wages rose in America as elsewhere, but not always as fast as prices, so that their purchasing power might even be reduced. All the more striking was the prosperity enjoyed on the capitalist side of the fence.

Sixteen years after the war the Senate Commission published a list of persons whose taxable income was over a million dollars a year during or just after the war. The list contained 181 names. Some of these millionaires protested loudly at being included in a list of war profiteers. Indeed, it would be unjust to put in this category some of the older families whose fortunes had existed for generations, such for instance as the Astors. Nevertheless, when figures for different years are compared one can get a good idea of the rise and fall of war prosperity.

In 1915 there were 64 people in this taxation class. In 1916 there were 108. In 1917, at the height of war prosperity, there were 129. In 1918, what with price control and, at the end, the diminution of war orders, the figure fell to 73. The year

following it fell again to 65, and then, as prices fell, these large fortunes diminished rapidly. Few additions came to swell the list after the war, while many names, including Morgan's, dropped out. By 1920 it had fallen to 29.

### *Total Profits of the War*

To get an idea of the total profits which were due to the war we must consider the money collected by taxes on excess profits. With the exception of England, such taxation was not introduced until 1916, so that it is only for the later years that figures may be given. In America, up to the end of 1918, these taxes brought in a total of 5500 million dollars, in England 2000 million dollars, in Germany nearly 1000 million dollars. Assuming the tax to be 40% of the profit, which is if anything an overestimation, we get, for these countries alone, total *declared* war profits of 20,000 million dollars. Then in France taxation on war profits for 1917 and 1918 brought in roughly 1000 million gold francs; in Austria 1200 million crowns was collected, in Holland 800 million florins, in Switzerland 500 million francs. And in these countries at most a third of war profits was paid by the tax-payer. In other countries too war profits were considerable, in Spain for instance, where the tax was minimal.

When all countries are taken into account a grand total may be roughly estimated. This total of war profits earned by both belligerents and neutrals may be put at 30,000 million dollars at the absolute

minimum, which is about £10,000,000,000 in English currency to-day. Of this, one-third at the most was taken by the tax-collector.

Of this total profit, a considerable part, though certainly less than half, arose directly or indirectly from the execution of government orders. The last war, indeed, witnessed the grand renaissance of government contractors. Once more governments resorted to a system long ago condemned and then almost forgotten—the grant of monopolies. With the style of commercial agent the obsolete *munitionnaire général* once more appeared on the stage, the part being played by John Pierpont Morgan.

Though he was unquestionably the star, the same part was played on a smaller scale in the European countries that were at war. The risks contractors ran were far less than they had been in Ouvrard's time; in fact they ran no personal risk at all, for there was now no Napoleon to clap them in prison instead of paying them. Not one of the big contractors was prosecuted. If some of those who made fortunes in the war, like Glückstadt in Denmark, ended badly, it was not because they made too much but because they did not make enough. Deliveries to Russia were the only cause of serious losses. Leaving armament firms aside, neither the political upheaval in Germany and Austria in 1918 nor the treaties of peace inflicted serious injury on the dealers in war supplies.

If this side of war-time business has been dealt with at some length, it is because public opinion has shown till now very little interest in it. It has

risen in anger against the makers of arms and munitions, but paid little attention to those who provide the raw material for these products, and those who supply corned beef, military cloth, boots, oil and petrol, and the thousand other things required by a modern army. In a future war, these needs will not be less, if anything the contrary. They will all be wanted, and wanted so badly that war-time prices will readily be paid for them. Thus when we come to enquire who are the various parties who have, in fact, a financial interest in war, we find in the contractors a class whose importance must not be underestimated.

## CHAPTER V

### THE SPECULATORS

#### *The Nature of War Speculation*

THE general conducting operations in the field, the financier who finds the money to pay for a campaign, the maker of guns, and the purveyor of provisions—all these may say in justification of the profits they make that they are no more than just reward for services rendered, though whether the service is commensurate with the reward is a point about which opinions may differ. We come now to consider a special class of profits, special because in this case no such claim can be made. The speculator as such renders no services whatsoever. The success of his deals contributes nothing to the success of a campaign.

The word speculation, particularly when applied to the economics of modern war, is used in such a variety of senses that it would be as well to define it. When a manufacturer who has always made stove-pipes starts making shells in war-time, seeing the chance of greater profit, there is in this new departure an element of speculation. In fact, in this sense of the word, speculation is never entirely absent from all business enterprise. But it is not in that sense that the word is used in this chapter, but in the

narrower and stricter sense: speculation is business based on price fluctuations.

The typical speculator produces nothing. Nor, like the merchant, does he provide goods to those that want them. Indeed, goods themselves have for him no real intrinsic interest. What interests him is that the price of a thing differs at two different places or at two different moments. His business is solely to make a profit out of this variation in price.

A war naturally provides excellent opportunities for operations of this kind. For every war upsets the standards of value that have been established and sets up new ones in their place. Products which are one day superfluous are in great demand the next; goods urgently needed for the prosecution of a war are practically worthless when the last shot has been fired. War speculation is based on the attempt to guess the answers to certain questions: Will there be war? When will it end? Who will win? What will be the terms of peace? There are many others, but these are perhaps the most important. These questions are important enough and difficult enough, yet it would be a mistake to imagine that speculation is based on any profound or penetrating spirit of enquiry. More often than not it is merely guesswork, and in war as in peace many are the speculators who owe this success to calculations which in themselves were false.

A primitive form of speculation which would not come within our definition is betting, but it may none the less be mentioned. It is probable that bets on the outcome of a war were made in ancient times

considering the efforts that were made to read the future and the prosperity enjoyed by all prophetic undertakings. Certainly traces of betting may be found during the naval wars of the sixteenth and seventeenth centuries. Dutch merchants used to bet on whether ships would arrive safely in port or fall a prey to storms, pirates, or the attack of enemies. And the companies owning the ships would see their shares rise or fall in response to news, good or bad, that some captain would bring back from Asia or South America. We have here the germ of the war speculation of later times which only took definite shape in the course of the nineteenth century, and which culminated in the last war.

### *Speculation in Government Stock*

It was not long before speculation was extended to military operations on land, war loans providing the first object of speculative operations. Here, too, the Dutch were pioneers. In 1672, while at war with England, Holland found it necessary to issue a war loan to subsidize her allies, Austria and Brandenburg. This stock immediately became the object of frantic speculation, its value fluctuating with every turn in the campaign. When the flooded regions of the Netherlands froze, allowing the enemy to advance on the ice, the stock fell to half its nominal value. Then when the thaw came to impede manœuvring, it jumped up from 50 to 80%.

During the next two centuries every war was accompanied by speculation in government stocks,

though on no very great scale. Apart from a few exceptional periods, up to the end of the eighteenth century their operations were for the most part confined to a handful of professional speculators, though the sums won and lost were for these individuals very considerable. What mattered, however, to governments was the loss of prestige occasioned by a fall in stock quotations after every battle lost. In England radical measures were undertaken to put an end to war speculation, a ban being placed on the buying or selling of stocks for forward delivery. This ban was in force down to 1860, though it was not long before speculators had found means of eluding it.

The French Government tried to counter the effects of private speculation by itself entering the field. In these operations Napoleon showed remarkably little skill. In spite of his contempt for financiers and speculators, he attached considerable importance to the value of *rentes* on the *Bourse*, regarding it as a gauge of the credit of the State. Accordingly he intervened on several occasions to keep up to the price; but his action failed to achieve the desired result and cost the treasury a lot of money. In 1803, after England's declaration of war, *rentes* fell on the *Bourse*, and the government spent 12 million francs without succeeding in arresting the movement. At the beginning of the war with Spain, Napoleon, disregarding Mollien's advice, decided that the 5% *rente* must not be allowed to fall below 80%. With this aim, 30 million francs was spent, but once again the intervention failed.

Far from stopping speculation, it seems that government intervention of this kind only succeeds in making it still more speculative. That the government is trying to sustain the market will be known to all, but how long it will persist, and what success it will have, remain uncertain. During the Napoleonic wars, crashes were frequent on the Paris *Bourse*. One of the most serious was that which occurred in June 1809 during Napoleon's Austrian campaign, after the heavy engagements of Aspern and Essling, but before the decisive French victory of Wagram. Régnier, a heavy speculator, had bought a large quantity of *rentes* for forward delivery, but the campaign being so far undecisive, stocks fell, and at the day of settlement he was unable to meet his engagements. This failure caused havoc all round. There were several bankruptcies and a suicide. Brokers who had extended large credits to Régnier were completely ruined. Régnier, however, managed to survive the crash without himself suffering very seriously.<sup>1</sup>

### *Francs and Sterling*

Speculation in foreign exchanges also flourished under the Empire. Most of the bankers could still remember the *assignats* of the Revolution and so were well versed in the art of making money on a falling currency. Although fluctuations were now much slighter, they were still sufficient to provide a good margin of profit. Sometimes it was the franc, sometimes the English pound which was threatened.

<sup>1</sup> Jules Bertaut, *La Bourse*. Paris 1933, p. 27.

Money changed at the right moment and later changed back again was lucrative business.

The great expert in this field was the banker, Jacques Laffitte. He brought off his first big deal when acting for Perrégaux's bank in the troubled year of 1805. The Bank of France was passing through a critical time and bank-notes had fallen to 12% of their value. Laffitte's chief, Perrégaux, was at the same time at the head of the Bank of France. He was already on the verge of senile decay and was extremely pessimistic, believing that bank-notes were going the same way as the *assignats*. Accordingly he wanted his own bank to lay in a stock of foreign notes. But Laffitte looked at the situation more coolly and more shrewdly than the governor of the bank of issue. In spite of the French defeat at Trafalgar, he bought not pounds but francs. His judgment was subsequently proved to be sound. A few months later, after the victory of Austerlitz, the monetary panic subsided and the franc recovered its old rate.

Naturally it was not only the franc that Laffitte was ready to support. If he saw a chance of making a profit he was just as ready to buy "enemy" currencies. As a result of the Continental Blockade, the English pound fell to two-thirds of its proper value. Laffitte saw his opportunity and bought £400,000 at the rate of 17 francs to the pound. He felt sure that the day would come when Napoleon would be obliged to make peace with England—if not as the conqueror, then as the conquered—and when that happened the pound could not fail to rise. When Napoleon's power declined, Laffitte's foresight was

rewarded. In a day he sold all his English money at rates between 20 to 21 francs, thus making nearly one and a half million francs. Incidentally, the man he sold them to was Count de Peyronnet, whom Laffitte was later to meet again in another field. De Peyronnet also did well on the deal as the pound continued to rise.

Speculation reached its height during the last phase of Napoleon's reign. During the Hundred Days the Paris *Bourse* reflected every hope and every apprehension. The first transports of joy brought *rentes* up to 70%. Ouvrard, who had just been given stock at 50% in exchange for a credit, had just time to sell out at a huge profit. But when it was seen that the Allies refused to accept the return of Napoleon, and were ready to renew the war, stock was thrown on to the market and *rentes* fell to 20%.

In London too the Stock Exchange was anxious, being far from certain of an English victory. This lack of confidence was reflected in the value of the pound. After Napoleon's first exile, the pound had almost regained parity with other currencies, but now, on the eve of Waterloo, it dropped 15%. The only financier who was absolutely sure of the issue was Nathan Rothschild. Legends abound concerning his dealings on the Stock Exchange during the critical days of Waterloo.

According to one version, Nathan Rothschild went in person to Belgium to be near the English army and get at first hand news of the result. As soon as Napoleon's defeat was certain, he set off at the gallop to Brussels and then on to Ostend, where he jumped

into the first ship to leave. After a tempestuous crossing, he was to be found next morning silent and inscrutable in his usual place in the Stock Exchange. When asked for news, he simply shrugged his shoulders with a resigned air, and, as his family were known to be hostile to Napoleon, this was taken to mean that the latter had gained the day. Stocks were thrown on the market, and Rothschild, acting through an intermediary, was able to buy all he wanted. When reports finally came through from the Continent and prices soared, he had made no less than a million pounds.

It seems, however, that history was not after all quite so romantic. According to recent studies, Rothschild did not set foot on the Continent. Nor was it necessary for him to shrug his shoulders for prices to fall. It was known that, two days before Waterloo, Napoleon had successfully engaged Blücher at Ligny, and as far as was known the military situation was none too favourable to the Allies.

But it is certainly true that Rothschild was better informed than anybody else. One of his many agents scattered through the world was situated at Ostend waiting for news from the battle-field. A Dutch paper announcing the result fell into his hands just as a ship was leaving for England. This brought the news to Rothschild before even it came to the ears of the government, and he was able to make good use of it on the Stock Exchange.

Though he certainly made money in this way, he made considerably more on foreign exchanges. For directly after Waterloo the pound leapt upwards, so

that the sums which he had lent the Allies in depreciated pounds were now due for repayment in pounds that were back at parity. This was not at all to the liking of the ministers of finance in Berlin and Vienna, but in the end they got off lightly, as the British Government made a generous gesture, offering to pay the difference in the rate. Thus Rothschild's confidence in England and the English pound was handsomely rewarded.

### *The July Revolution*

Fifteen years after Waterloo, another critical moment arrived in France. This time it was not a foreign enemy which threatened, but civil war. The speculators in English pounds, de Peyronnet and Laffitte, were once more on the scene, this time in political rôles. De Peyronnet was now minister of the interior in the reactionary government of Charles X. The great majority of the newly elected parliament were opposed to the government, and the latter as a last resort fell back on the promulgation of *Ordonnances*, *i.e.* unconstitutional decrees whose object was to stifle the opposition. In the ranks of the latter was the banker Laffitte, who had for long been a deputy, and was now leader of the liberals. His real aim was to place the Duke of Orleans on the throne, at the same time getting power for himself.

The Rothschilds, who in France also had in the meantime become official bankers to the government, watched the storm brewing with great anxiety. Salomon Rothschild, the Viennese brother, came in

all haste to Paris to find out what was happening. Things were indeed serious enough for the Rothschilds. As we have seen, they had undertaken the issue of a government loan at a very high rate,  $102\frac{3}{4}$ , and a great part of it was still on their hands. If civil war broke out, government stock was bound to fall abruptly. As a matter of fact the Rothschilds' fears did not go so far as this. In their view the government might fall, but an attack on the King and the establishment of a new régime seemed to them impossible.

The man who judged the situation most accurately was Ouvrard. He had only been out of prison six months, but his agents were once more listened to, both in official circles and in the opposition group. At once the most energetic and the shrewdest financier of the day, Ouvrard immediately planned his campaign. Certainly government stock was going to fall. But a town menaced with open revolt was hardly a suitable place for business. The *Bourse* might easily be closed. It might even happen that, with communist agitation, capitalists themselves might be attacked. It would, accordingly, be much better to conduct operations abroad. It was possible to deal in *rentes* in London. So Ouvrard went there in the middle of July 1830, and started bear operations. Nathan Rothschild was horrified to see the steady sale of stock, with the price going lower and lower. Before long he found out who the seller was. This startled him. Had his brothers misinformed him on the situation? Or was Ouvrard playing a dangerous game? However that might be, he saw nothing for

it but to buy the stock Ouvrard was selling, so as to keep the price from falling still lower. Meanwhile, he tried to get further news from Paris.

In response to Nathan's enquiries, James Rothschild, head of the Paris house, went to de Peyronnet and asked him straight out whether there was any truth in the rumours of an imminent *coup d'état*. De Peyronnet assured him that all such rumours were baseless. He even showed him the documents addressed to the new deputies convoking the first meeting of the Chamber, and insisted that everything was going to be done according to constitutional procedure. James Rothschild accepted these assurances and passed them on to Nathan in London.

The very next day the *Ordonnances* were issued which suspended constitutional rights. Moreover they were signed by de Peyronnet himself. The population was furious. The streets of Paris were barricaded, and for three days a sanguinary struggle was fought out, ending in the complete triumph of the Revolution. The King abdicated and fled to England. Ministers were prosecuted, and de Peyronnet was condemned to penal servitude for life, though he was finally liberated in 1836. Laffitte's star was now in the ascendant. His protégé, the Duke of Orleans, now came to the throne as Louis-Philippe, establishing a *bourgeois* régime. Laffitte was asked to form a cabinet. This he at first refused, but he accepted the ministry of finance, and later in the same year he became prime minister.

Reactions on the exchanges were exactly what Ouvrard had foreseen. While fighting continued in

the streets of Paris, *rentes* were thrown on to the market in such quantities that the price fell 20 to 30%. Ouvrard's operations succeeded perfectly and he made some millions of francs. Far greater, however, than his profits were the Rothschilds' losses. They themselves estimated that the July Revolution had cost them 41 million francs. In fact, as a result of the Revolution and Ouvrard's attack on the *rentes*, the Rothschilds found themselves for the first and only time in serious difficulties.

### *Talleyrand as Speculator*

So much of speculation turns on political events, that to be well informed politically is an asset of the greatest value. Accordingly it is not surprising that politicians themselves have turned to good account their inside information.

In the biographies of celebrated statesmen this subject is not stressed. If it is mentioned at all, it is rather to excuse a human failing, and many are the reasons that have been advanced in the attempt to whitewash their financial dealings. We need not enumerate them. For us it suffices that like other mortals—or even immortals: Rembrandt, Voltaire, Gluck, Rossini and many more—great statesmen have engaged in speculation with the principal object of making a lot of money with very little trouble. If the instinct for gaming is also there, so is it with all speculators. There is no reason on that account to put statesmen in a special category.

Talleyrand is generally regarded as the model of

the speculating statesman. In spite of the heavy expenses entailed by the luxurious life he led, Talleyrand was able under Napoleon to amass a fortune of 50 million francs. It is true that he drew a large income from his various offices. He also received substantial sums from various princes when the map of Germany was being recast after the Treaty of Lunéville, and on other similar occasions. But these sources were far from adequate to account for his wealth. It is certain that throughout his life, in peace and in war, Talleyrand made a practice of using his information on affairs of State for the purposes of private speculation.

His most lucrative deals were probably those done while he was in charge of foreign affairs under the First Consul. His speculations at this time were closely connected with his diplomatic work. After the Austrians had been defeated at Marengo, Talleyrand succeeded in persuading Count Joseph Saint-Julien to sign a preliminary treaty of peace contrary to his instructions from Vienna. The Austrian Government refused to ratify the treaty, and it was only after further military operations and diplomatic overtures that peace was finally concluded. It is just such occasions as this, hovering between peace and war, that offer the initiate the most fruitful opportunities for speculation.

It has been maintained that, during this brief period of uncertainty, Talleyrand made 7,500,000 francs by speculating in government stock. Probably, this figure is exaggerated like so many others which historians ignorant of all financial matters quote glibly

in their books. The market for loans was too restricted at that moment for such a profit to have been likely.

The figures quoted of another deal a few months later sound far more credible. During the negotiations preceding the Treaty of Lunéville, France insisted that Austria should pay in full the loans she had raised in the Belgian provinces. Talleyrand made haste to buy up as much as possible of this stock whose value had greatly depreciated. Naturally when the arrangement that had been concluded was published, the loans jumped at once, Talleyrand making nearly 7 million francs on the rise. French *rentes* were also affected and he made on this too. His dealings, however, were not always so fortunate. A deal entered into on the eve of the Treaty of Amiens, signed by France and England in 1802, did not come off and Talleyrand on this occasion lost 2 million francs.<sup>1</sup>

His contemporaries, particularly foreign diplomats, were not unaware of the private dealings of this minister for foreign affairs. Rightly or wrongly, it was suspected that his political decisions were not uninfluenced by his interests at the moment on the exchanges. Thus during the summer of 1801, the British Government refused to negotiate with him on the grounds that he was at the time engaged in speculations in English Government stocks. Two years later, when hostilities once more broke out between France and England, Russia tried in vain to stop the conflict. According to the Russian ambassador in Paris, these efforts were rendered

<sup>1</sup> G. Lacour-Gayet, *Talleyrand*. Paris 1930, vol. ii, p. 73.

abortive by Talleyrand to suit his own purpose. It seems that the latter was engaged in bear operations, and that war was necessary for their success.

Nevertheless, it has not yet been definitely proved that Talleyrand sacrificed the interests of his country to his own, however much his dealings may have lacked propriety. There is certainly no doubt of the fact that all through the Napoleonic wars he was continually gambling on English currency and English stocks, nor was he always gambling on their fall. Already in 1805, he opened an account with Laffitte in sterling, thus taking precautions against anything that might happen to the franc.

Napoleon knew pretty well what Talleyrand was doing, and naturally objected. That was one of the reasons why he could never trust his foreign minister completely. Nevertheless Talleyrand's diplomatic gifts were such that Napoleon did not feel able to dispense with his services. After a rupture which lasted some time, Napoleon once more sought Talleyrand's collaboration on the eve of the Russian campaign. Rather precipitately, he appointed him ambassador to the new kingdom of Poland which he proposed to re-establish. But when he got wind of Talleyrand's operations on the *Bourse* of Vienna, where the latter was speculating heavily in Austrian loans, his mistrust was evoked once more and he cancelled the appointment. After the disastrous campaign in Russia Napoleon swallowed his scruples and offered Talleyrand the ministry of foreign affairs. But now it was Talleyrand's turn to refuse, for he regarded the Emperor's career as at an end. Both

as politician and as speculator, he was now banking on Napoleon's adversaries.

Under the first Restoration Talleyrand again reaped an abundant harvest. As foreign minister to the Bourbons, there were many pickings for him and he also made a great deal on the *Bourse*. In order to sustain the credit of the restored monarchy, it was determined to force up the price of *rentes*. The treasury set aside 3 million francs for the purpose, and Talleyrand and other notables undertook to support each other in buying for a rise. They bought up between them all the *rentes* that were for sale. When the price rose, the public started buying too, and Talleyrand and his group could withdraw. The profit they made amounted to 16 million francs, of which 6,400,000 was Talleyrand's share.

During the last phase of his diplomatic career, when he was ambassador in London, he still remained a devotee of speculation. His relations with the Rothschilds were friendly and also valuable. He was prepared to accept their money,<sup>1</sup> but he could do without their advice. For, if all his dealings were known, it would probably be found that he had in course of his life made considerably more on the exchanges than the cleverest of the five Frankfort brothers.

### *Bismarck accused of Speculating*

Amongst speculating statesmen Talleyrand was certainly one of the most successful. Indeed success

<sup>1</sup> Conte Corti, *La Maison Rothschild*. Paris 1929.

has been rather the exception than the rule. It is well known, for instance, that Cavour, the organizer of the unification of Italy, was engaged from his youth in speculative operations, but often with most unfortunate results.

Benjamin Disraeli was hardly more successful. He was still quite a young man when he plunged into a speculation in South American stocks at a moment when the Spanish colonies were struggling for their independence. He won and lost alternately until the crash on the Stock Exchange in 1825, when he lost £7000, a sum considerably greater than his total fortune. As a result of this unhappy deal Disraeli was for years crippled by debt, and it was only after a wealthy marriage that his affairs were straightened out. It seems that this early experience cured him for good of any desire for speculation.

On the other hand, the question has been much discussed, particularly after 1870, whether Bismarck made use of his political information to engage in speculation through his banker Bleichröder. The question has been the subject of violent polemics and even actions in the courts, but has never been entirely cleared up. Bleichröder was not only banker to the Court and to the Prussian Government, but he also handled Bismarck's personal fortune. He was a close friend of Bismarck's, visited him frequently, and was in fact the only man who could enter Bismarck's study unannounced. It seems, however, that at these interviews, Bismarck made a point of avoiding all discussions of his private financial affairs. He knew

his business was in good hands and did not bother about it.

When his relations with Bleichröder became the subject of attack, he sold out his Russian holdings, and subsequently he declared on several occasions that a minister of foreign affairs ought not to have money invested abroad.<sup>1</sup> But earlier in his career, he had not been quite so scrupulous. In 1856 war threatened to break out between Prussia and Switzerland concerning the Canton of Neuchâtel. In Berlin a campaign had been thoroughly prepared for the reconquest of this territory which had formerly belonged to Prussia. Nothing was, however, to be done without French approval. It was to sound the French Government that Bismarck, then Prussian representative in the Diet of Frankfort, was sent on a special mission to Paris.

Bismarck had already received reliable information according to which Napoleon III would raise no objection to the Prussian plan. He thus regarded war as fairly certain. He went to Rothschild's in Frankfort and, although Rothschild advised against it, he gave instructions for the sale of all his holdings that could be adversely affected by war. Having thus taken all precautions, he set out for Paris, where everything turned out just as he had expected.

In the meantime the King of Prussia, Frederick William IV, always indecisive and inconstant, had changed his mind. In consideration for the feelings of Austria and England, he cancelled the proposed

<sup>1</sup> R. Lewinsohn, *L'argent dans la politique*. 4th ed. Paris 1931, p. 36.

campaign. Bismarck had good reason to be sorry that he had not followed Rothschild's advice for he lost a large sum of money.<sup>1</sup> Having paid dearly for his lesson, it would seem that Bismarck never again went in for speculation of a "diplomatic" nature, at any rate not on his own initiative.

### *The Prussian General Staff*

It was quite otherwise with those in Bismarck's *entourage* amongst whom speculation flourished. At Court and at the foreign ministry, the buying and selling of stocks was regularly carried out in anticipation of major political events. These dealings were on a scale which altogether outdistanced the political speculation of Napoleon's days.

The Franco-Prussian War provided a good opportunity to political speculators. The political events leading up to it, particularly Bismarck's famous telegram from Ems, which was designed to force France to take the rôle of aggressor, let loose a veritable panic in Berlin. The public lost its head, and threw on to the market stocks and shares of every description, regardless of whether they were Prussian or foreign. Quotations fell 20 or 30%, some even further. In the general excitement, all prices fell: American bonds, English pounds, and, quite illogically, even raw materials.

It was only after the Prussian troops began to penetrate into French territory that people in Berlin began buying for a rise. After the battle of Sedan

<sup>1</sup> Conte Corti, *La Maison Rothschild*. Paris 1929.

prices once more rose to normal. An early peace was expected, when prices were counted on to rise. But the siege of Paris lasted longer than was expected, the Berlin *Bourse* was discouraged and prices weakened once again. These ups and downs, however, did not affect the political speculators who were waiting for the right moment to strike. In a letter dated September 30th, 1870, a Prussian Court official wrote as follows to his Berlin banker: "When peace is imminent, I will send you a telegram saying: 'Please send cigars.' You will then perhaps have time to do something."

Months passed before it was possible to "do something." Then on January 23rd, 1871, the French foreign minister, Jules Favre, appeared at last at Prussian headquarters to make overtures for an armistice. Negotiations were kept strictly secret—all the better for the speculators. The next day the telegram was despatched from Versailles: "Please send cigars for His Royal Highness."

This speculator had, at least, some thought for the proprieties. Others at headquarters were more cynical. The same day one of them sent the following telegram to his Berlin banker: "If prices have not appreciably risen, buy me to-day everything you can." An explanatory letter followed which ran: "I telegraphed to you this morning to buy, as information that I have received concerning Jules Favre, who has been here since yesterday, make me feel certain that the capitulation of Paris is imminent; and in all probability prices will rise on the *Bourse*. Just how far prices will rise and what will be the

right moment to sell, are questions on which I will if possible give you my opinion, but I beg you to use your own discretion in the matter. Let me know what you have bought to-day, so that I can have an idea of the situation."

Four days later, an armistice was signed and a sharp rise followed on the Berlin *Bourse*.

*Baron von Holstein*

During the period following the Franco-Prussian War, the greatest speculator in Bismarck's *entourage* was one of the last people public opinion would have suspected, namely Baron von Holstein. This disciple and protégé of Bismarck's was never a minister, but as head of the political department of the German foreign office he exerted considerable influence on German policy during the last ten years of Bismarck's government, and a good deal more after the latter's fall. He kept apart from the brilliant society at the Kaiser's Court; it was in the seclusion of his office in the ministry that he quietly wove his intrigues. He knew all, but told nothing: that was the secret of his power.

The only person that he kept quickly and regularly informed of political events seems to have been his banker, Emil Heymann, partner in the Bank of Meyer-Cohn, who carried through Holstein's deals on the *Bourse*. But, unlike Bismarck, Holstein was far from giving his banker *carte blanche* in the handling of his affairs. On the contrary, he controlled every operation himself. Almost daily, sometimes as often

as two or three times a day, Heymann would receive notes containing the latest information that could affect the *Bourse*. Often these notes would be followed by orders to buy or sell. For thirty years there was hardly an important event in any country that was not used by Holstein either to buy for a rise or sell for a fall. He dealt in everything: foreign exchanges, bonds, and shares. He speculated on every kind of event at home or abroad: on epidemics, on famines, but of course above all on war and peace. Particularly on this last question, his situation caused him to be better informed than other speculators.

In 1887 he brought off a big deal when relations between Germany and Russia were very strained. It was thought in Berlin that Russia was preparing for war, and the general staff advised the German Government to undertake a preventive war. The old Moltke drew up a memoir, according to which war against Russia should be declared at once, even in mid-winter. Bismarck was against this plan, but he started an economic campaign against Russia forbidding the official banks to give credits on the security of Russian loans. As a result, these loans fell. Holstein was one of the few people who knew beforehand of the projected measure and he had instructed Heymann to engage in bear operations in Russian stocks.

Speculations on peace and war were of course much more difficult when the issue did not depend on Berlin. Nevertheless, Holstein made use of what information he had. In 1894 the sudden death of the Sultan of Morocco gave rise to fears of grave

complications. Holstein wrote to tell his banker to take advantage of any weakness on the Paris *Bourse*. "We know," he wrote, "that civil war is almost certain. Probably it is not yet known at the *Bourse*. Make your decisions accordingly, but above all do not lose time."

The Boer War offered Holstein good scope for speculation. Some months before the declaration of war, he wrote to his banker: "If events take the course I hope, we shall make a lot of money during the next few weeks." But events did not follow his predictions, and before the war actually broke out, Holstein, who had been selling shares in South African gold mines, had lost 22,000 marks. Nor did the war, when it finally came, take the course he desired. He was backing the English, but at the end of 1899 things seemed to be going in favour of the Boers. "Naturally, I feel no longer inclined to prophesy," he wrote, "but I am wondering how much I shall lose if things go wrong. The worst thing that could happen would be for peace to be concluded. I do not believe that will happen; but if it does, it will be just the same as before the war. . . . At the first ray of sunshine, prices will rise." In the end Holstein was rewarded for having backed the winning side.

Although most of his information was sound enough the results of his speculations were none too fortunate. Soon after the fall of Bismarck, Holstein's bank account showed a debit of some 300,000 marks. This debit, however, disappeared from the books on the same day as the head of the bank was decorated

with a particularly high order, no doubt owing to Holstein's intervention. It thus seems that up to that time he had lost a good deal more than he had made.

This can be explained by the fact that, like nearly all statesmen who speculate, Holstein overestimated the influence of political events on prices and neglected that of other factors. Nevertheless, to judge from his correspondence,<sup>1</sup> his war speculations were fortunate. It thus seems that he lost in peaceful years what he made out of wars or the threats of war.

### *Speculation in the European War*

During the nineteenth century war speculation was for the most part confined to dealing in foreign exchanges and in government stocks. Speculation was based on the effects which the declaration, the conduct, and the issue of a war might have on the finances of a given state. The influence of war on private business was not considered by speculators to anything like the same degree.

For one thing, former wars had far less effect on private business than had the war of 1914, with the enormous consumption of material that it involved. And in conformity with the individualistic ideas of the nineteenth century, governments, even in wartime, avoided as far as possible all interference with private trade. It is true that in most European countries all citizens, even those who were rich, were liable for military service. Nevertheless as capitalists,

<sup>1</sup> *Holstein's Börsenbriefe*, edited by Ernst Feder. Berlin 1925.

they retained their freedom. If they were obliged to offer their lives to their countries, it was not so with their money. That they could keep; and they could do as they pleased with it.

On the other hand, most of the businesses which profited directly from war were not yet limited companies whose shares were quoted on the exchanges, so they were not so accessible to speculation. Those who wished to make money from war trade must take to trade themselves, supplying arms or munitions, provisions, or other military stores. Business done from a distance, without actually trading, simply on the fluctuation of prices, only began to assume considerable dimensions during the last years of the century.

It was quite otherwise during the last war. Then there were innumerable ways of making war profits simply by speculating on the stock markets. Of course the older forms of speculation still persisted, especially gambling on the appreciation or depreciation of currencies. The enormous war loans that were issued on all sides were also to some extent the object of speculation. Intense speculation, for instance, followed the downfall of the Tsarist régime, when Russian loans might be worth anything or nothing. All the same, speculation in foreign exchanges and in government stocks was insignificant compared to the speculation done in shares and in raw materials.

This time governments took measures from the outset against speculation. This was not done for fear of the speculators raking in too much money, but

for fear of the effects of bear operations. If prices fell on the exchanges, it would be an open demonstration of pessimism which might adversely affect the national morale.

In July 1914 the markets reacted in the usual way to the threat of war by an all-round fall in prices. The extent of the fall varied with different stocks and in a strangely illogical manner. For instance, Russian and Hungarian loans fell less on the London Stock Exchange than English Government securities. The latter fell with unheard of rapidity, losing 10% in a few days. English railway stock fell 15% and even then no one was keen to buy. Stranger still, American steel works and Spanish copper mines that were shortly to be making enormous war profits fell 15 to 20% below their normal peace-time value.

To prevent a wholesale collapse of prices there was nothing for it but to close the exchanges. At the end of July, in countries far from the centre of disturbance as well as in those involved, the exchanges were closed. The last to close its doors was the London Stock Exchange, which shut on August 1st. In this way it was intended to suspend all dealings. In reality, however, this was not achieved, for speculation was continued outside the official exchanges. In spite of great technical difficulties, unofficial markets were formed where prices fluctuated more violently than ever. To cut short this wild speculation, the authorities were compelled once more to open the exchanges, though they kept them under control and imposed certain conditions.

Buying or selling for forward delivery was prohibited. Whoever bought bonds, shares or commodities, was obliged to accept delivery and pay forthwith.

Restrictions, however, were not very effective. Everywhere speculators found means of getting round them. Besides, the controlling authorities became gradually more lax. Bear operations, such as had been carried out in former wars, were indeed practically stopped. But with the growing profits of war industries, the rise of dividends and the distribution of bonus shares, buying for a rise was the basis of feverish speculation. In England the shipping boom sent prices rocketing. In Germany many shares rose to double what they had been before the war. Even in France, where the most important industrial centre was occupied by the enemy, shares rose 30 to 50%.

But it was on the exchanges of neutral countries, particularly in America, that war speculation reached its climax. It was not till December 1914 that the New York Stock Exchange was re-opened. By that time the first alarm created by the outbreak of war had pretty well subsided. All the same, markets were at first weak, and in spite of official intervention to support them, prices further receded. Even the shrewdest speculators refused to believe that the war could be a source of American prosperity. Shares of the United States Steel Corporation fell a further 20%. But in a few days things began to change. Business opinion on the subject of American war supplies began to take shape. The government was

preventing good business? Well, the government would have to give way!

At the beginning of 1915, when the first contract was signed between Morgan and the British Government, a general rise in prices took place; and during the course of that year shares doubled in value. Many shares even reached three or four times their pre-war values. In 1916 Wall Street was the scene of the most intense speculation. The shares of those companies receiving the largest orders for war supplies soared to preposterous heights. Those of Bethlehem Steel, which had been 25 dollars before the war, rose to 600 and, finally, to 700. Shares of the American Hide and Leather Co. jumped from 3 to 20 dollars. Those of the Corn Products Refining Co. from 8 to 50 dollars.

The profits derived from this speculation were hardly less than those derived from war trade itself. The machinery of capitalism was working to perfection. There was no need to trade in shells or haversacks; one could make almost as much by buying up at just the right moment a block of shares in the firms that made them.

Among the speculators of Wall Street, one name stands out: that of Jesse L. Livermore. Already, before the war, he had done some brilliant deals on the exchange and had built up a considerable fortune. But the depression during the early days of the war had ruined him as it had so many others. At the beginning of 1915 he was insolvent; he was, in fact, 4 million dollars in debt. All the same, his credit was still good, and as soon as war orders started to

come in he bought United States Steels and Bethlehem Steels. In 1916 he was already liable for tax on an income of over a million dollars a year. By 1917 he had paid off all his debts, and when the United States entered the war he was in a position to take up a million dollars of war loan.

### *Wall Street fears Peace*

Up to America's entry in the war, speculation in Wall Street concentrated almost exclusively on the question of war supplies. Accordingly the duration of the war was a matter of vital interest to everybody. Every speculator had his ear to the ground so as to be the first to hear any premonitory vibrations of the bells of peace and be able to sell out in time. For it was well understood that the shares of the war industries could not maintain their levels when the war was over. Towards the end of 1915, when Colonel House was sent over to Europe to sound the belligerents on the subject of peace, anxious looks were exchanged in Wall Street and prices fell. But this time they were spared the bitter cup of peace, and before long prices had risen higher than ever.

During the last weeks of 1916 the danger of peace was once more giving rise to grave concern, in fact, anxiety in Wall Street was acute. Ordinary business men steadfastly refused to believe in the possibility of peace. The war, looked at from a distance of 3000 miles, was really too beautiful to end so soon. But speculators of less enthusiastic nature and more

objective vision were quick to grasp the situation. One of the shrewdest and most far-seeing was the New York financier, Bernard Baruch, a personal friend of President Wilson.

Bernard Baruch was one of those typical American financiers who pride themselves on having made a fortune by speculating. Before the war he had already made several million dollars. He held, incidentally, a large block of shares in the Atolia Mining Co. which was engaged in the production of tungsten, an ingredient of tungsten steel. During the war the price of this metal rose to ten times its pre-war level, and in the year 1916 alone, Baruch drew 600,000 dollars in dividends, which even in America was no mean profit from war trade. But on the Exchange, sums of that order could be made in a matter of days.

Like most other big speculators, Baruch had been buying shares in war industries for forward delivery in the expectation that their prices would rise. On December 11th, 1916, he made a further purchase of some thousand shares in the United States Steel Corporation. The very next day the German Chancellor, Bethmann-Hollweg, announced that he had transmitted proposals for peace negotiations to the Allies and had also informed neutral powers. The same afternoon Baruch sold all the shares he had just bought. He even resigned himself to losing 20,000 dollars on the deal, for peace threatened, and peace would mean a heavy drop in prices. He now reversed his former tactics and started bear operations.

Meanwhile the Allies one after another turned down Bethmann-Hollweg's offer. On December 19th Lloyd George made a speech in reply which seemed definitely to settle the matter. There would be no peace negotiations. Prices rose on the Stock Exchange. While Lloyd George's speech was being cabled to America, Bernard Baruch stood before the ticker following every word. But whereas others bought, he continued selling. He sold as many as 43,000 shares of United States Steel. He was in fact engaged in bear operations to the tune of 5 million dollars, and prices went up minute by minute. It was remarkable that so careful a man should be playing such a risky game.

Two days later, sensational news was circulating in Wall Street. The government had just published a note that had been addressed to all belligerent countries in which President Wilson offered to act as a mediator. Reaction on the Exchange was immediate, prices falling sharply. Shares in war industries fell 10 to 20%. This break in prices was just what Baruch needed. He could now buy with a comfortable profit, and he made nearly half a million dollars on the deal.<sup>1</sup>

Dealings of such dimensions could not fail to attract attention even in America, and Baruch was suspected of having received prior information of the step President Wilson was taking. The press raised an outcry and a commission of enquiry was set up to investigate the matter. The latter, however, did not succeed in shedding light on Baruch's transactions.

<sup>1</sup> Robert Irving Warshow, *Wall Street*. French ed. Paris 1931.

Baruch himself naturally maintained that he had never received the least hint from Wilson of the proposed note; that he knew nothing more than was known to the public; that he simply believed in peace, and interpreted Lloyd George's speech as an indication that it was coming.

However that may be, it is certain that Baruch had based his speculation on a political error, for the peace tentatives failed even after Wilson's note. This serves to show the difference between his speculative ability and Holstein's. In contrast to the latter, Baruch had a keen flair for judging the effect of political information on the stock market quite apart from its intrinsic political significance.

A few months after America's entry into the war, Baruch left the scene of his recent triumphs. President Wilson called him to Washington, where he was first a member, later chairman of the War Industries Board, organizing supplies for the army and navy. In this position (though he did not actually fix prices himself) his decisions were to exert a considerable influence on the degree of war profits made by the industries engaged.

As was proper, before taking up his official duties, he sold his seat on the New York Stock Exchange. Moreover, he invested the bulk of his fortune in American war loans and handed over to charities the dividends accruing from the tungsten mines. Whereas in 1916 his income had been 2,300,000 dollars, in 1917 it was only 600,000, while in 1918 and 1919 it dropped to nothing. Stranger still in the moral evolution of this hard-headed business

man was the fact that he now became an ardent pacifist denouncing with vehemence the profits of war.

### *War Boom and Post-War Crash*

Other speculators, however, went on with their speculations after America entered the war, buying and selling with the same zest as before. But conditions were no longer so favourable as they had been. The machinery set up to bring war industries under some control, was, it is true, not rigorous enough to put a stop to war profits. But it did tend to reduce them, particularly in the case of the smaller firms. The ex-speculator, Baruch, was one of the first to apply the brake to industrial prosperity and even to that of the Stock Exchange. Another factor which now came into play was that, with America at war, speculators took far more notice of the progress of military operations. They gambled not only on the question of peace or war, but on the effect of every success or reverse at the front.

The most serious crash which occurred on Wall Street during the war years was strangely enough occasioned by an event that was far from the seat of American military operations, this being the Italian defeat of Caporetto in October 1917. This reverse was serious enough for the Allies, but in no way decisive; yet, when the news of it arrived in Wall Street, prices fell 20 or 30%. The collapse of the Russian front was another cause of depression. Bear operations prevailed, and towards the end of

1917 and at the beginning of 1918 the prices of American Industrials fell to almost the level at which they had been three years before, that is to say before war trade began in earnest. Many of the big speculators, and a lot of the smaller ones who followed them, lost in these months of depression all that they had previously made.

Then, as the Allies' position gradually improved, from the spring of 1918, a new wave of optimism set in and prices rose. This rise was not so sharp as had been the previous one, but things got steadily brighter and brighter as good news continued to cross the Atlantic. In the growing excitement speculators apparently forgot that successes would in the end mean peace. They forgot too that war profits were now considerably reduced both on account of government control and the general rise in wages.

It was only when the Armistice was actually signed and, as a result, war production arrested that prices on Wall Street began to weaken. But this moment of reflection did not last long. Everyone was in good spirits and it was impossible to believe that such good times were coming to an end. In 1919, Stock Exchange prices soared once more, reaching heights that had not been reached even in the palmiest days of war supplies. In the end came the inevitable crash. Stock Exchange prices and the prices of raw materials collapsed, bringing down with them in their fall hundreds of thousands of economic existences.

Very few were the war speculators who succeeded in withdrawing in time. One of them was the able Jesse L. Livermore, who at the last moment succeeded

in selling short 40,000 shares, making millions of dollars on the deal. Others, such as the unshakable optimist, William C. Durant, the much admired financier of the motor industry, saw their fortunes disappear. It seems to be generally true for war speculation as for peace speculation: riches quickly accumulated are quickly dissipated.

This instinct for speculation is deeply engraved in human nature, and it must not be thought that, because in the last war speculators bit off more than they could chew, they would in the next be any more prudent. Nor must it be expected that speculation will gradually be eliminated by a change in moral outlook as has been the case with the soldier's profits from war.

In peace-time the Exchanges do not like war. Prices weaken at the least hint of danger. For instance, in July 1934, when, following the assassination of Dollfuss, Italian troops were moved up to the Austrian frontier, prices on Wall Street fell sharply. Nervousness was such that even armament shares moved in sympathy with the general trend. Nevertheless it would be a mistake to think that professional speculators do not believe in war prosperity. All we may conclude is that the usual rhythm of stock market prices in modern wars—preliminary weakening, war-time soaring, post-war crash—will be duly followed in the struggles of the future. That is, unless speculation is completely suppressed in neutral countries as well as in those at war. But for the moment it hardly looks as if things would go that far.

## CHAPTER VI

### THE STRUGGLE AGAINST WAR PROFITS

#### *Three Arguments*

THERE is no one to-day in any country in the world who is ready to come forward openly to defend the profits of war. Profits of this sort are condemned on principle by public opinion and by every government alike. Underlying this condemnation are three fundamentally different reasons.

Firstly, there is the pacifist view. It is hoped that in suppressing the profits of war, war itself would be suppressed, or at any rate its duration curtailed. If no one profits from a war, no one will want it, and no one will have it—that is the simple logic of the pacifist's view. As a logical generalization, this is certainly contestable, but, as we have seen, a great deal of evidence could be mustered in support of it.

Secondly, there is what might be called the sociological view. Quite apart from whether wars are avoidable or not, it is incompatible with the modern notion of a citizen's duty that some should profit by the nation's need. When one man is called upon to risk his life, why should his neighbour make a profit instead of a sacrifice? The justice of this view is so incontestable that it finds support, at least in principle, even in the most anti-pacifist quarters. Moreover, it is realized that this moral argument has its

practical side. For it has often been proved that the co-existence side by side of war profits and war sacrifices does not tend to strengthen the morale of troops or that of the civil population.

Thirdly, there is the fiscal view. The State, if it is in need of money during a war, must take it where it can find it. This has in the past played a considerable and often a decisive part in the effective restriction of war profits. As a rule it is not war profits which are the first to be tapped, but if the war lasts long enough, the government is bound sooner or later to have recourse to this source of money, whether it is by means of forced loans as in the time of Napoleon or by taking excess profits as in the last war.

Moreover, in dealing with the eternal question whether the arming and provisioning of troops should be undertaken by the nation or by private enterprise, governments have often acted from purely fiscal motives rather than from military or economic. When armament makers, contractors or financiers go too far, governments take the offensive and impose restrictions. But, on the other hand, it has often been precisely the financial difficulties of a government which have forced it to shut its eyes to war profits of outrageous proportions.

#### *The Movement for International Control of Arms*

The struggle waged by pacifism against war profits is directed almost exclusively against the arms industry. As we have seen, it is more than doubtful

whether the armament firms have an interest in the actual outbreak of war. But there can be no doubt whatever that the fear of war is necessary to their trade, and that they are ready to fight tooth and nail any organization or any movement which could bring about a really stable peace. It need hardly be added that they are hostile to any general scheme of disarmament or control of armaments.

President Wilson and those who collaborated with him to set up the League of Nations were well aware of this, and expressed their opinions very definitely in the famous Article VIII on the first page of the Treaty of Versailles:

“The members of the League agree that the manufacture by private enterprise of munitions and implements of war is open to grave objections. The Council shall advise how the evil effects attendant upon such manufacture can be prevented, due regard being had to the necessities of those Members of the League which are not able to manufacture the munitions and implements of war necessary for their safety.”

For years, efforts at Geneva have been directed to this end. Efforts have also been made to frustrate these efforts. In 1925 a conference considered the question of regulating the international traffic in arms. Certain proposals were made for a ban on the export of arms to certain prohibited zones and on their sale to illegal customers, *i.e.* revolutionary parties or rebel colonies. It would be thought that it was in the interests of all the governments of the

Member States to agree to these proposals, but one or two exporting states refused to ratify them and accordingly they had to be dropped. Efforts to regulate manufacture were no more successful. A special commission to which the matter was referred produced a draft convention. It never became more than a draft, though the proposals were of the mildest.

The Disarmament Conference of 1932 was intended to result in a more comprehensive control of both the industry and the trade in arms. This time the eyes of all the world were turned on Geneva. Really definite results were expected. But, as usual, commissions and subcommissions were set up to consider carefully each special question. And the further into detail they went, the more entangled they became in political and technical arguments.

The suggestion of some of the more radical delegates that the whole arms industry should be nationalized was rejected at the outset on the pretext that it would discriminate unfairly against those small States which possessed no factories of their own. In pressing the justice of this objection, the great exporting and trading countries showed an almost greater concern than those which were supposed to need the arms.

Even the much more modest proposal for the licensing and control of private manufacture was confronted by insurmountable obstacles. The international control envisaged by France and America was objected to by England. Countries like China maintained that only the most rigorous international

control could be effective; but Japan would not entertain the idea of her arms being brought under the control of any international body whatever. As a result of Japan's attitude, Russia too made reservations. Three years passed in preliminary discussions, and the conference was never unanimous except when voting for adjournments or the setting up of new technical commissions.

Up to now, the international arms trade has succeeded with consummate skill in averting every danger threatened from Geneva. The declaration of war which the League of Nations made on the arms merchants seventeen years ago is still a dead letter to-day.

### *The Movement for National Control of Arms*

It has not been only in the International field that the struggle against the arms industry failed to achieve any definite results. Within each country it has failed too. Up to 1935 nationalization of the industry has nowhere been accomplished.<sup>1</sup> Wherever the question has been seriously raised, the industry has launched a prompt and effective counter-attack.

The argument put forward by the champions of private enterprise runs on these lines: Supposing the armament works are nationalized to-day, the production of raw materials will be taken over to-morrow, for they are necessary to the manufacture

<sup>1</sup> In France, however, after the electoral victory of the *Front Populaire*, the Blum-Daladier government has announced that legislation would be introduced to nationalize the manufacture of war material.

of arms. The day after to-morrow, it will be the turn of the textile industry and the victualling trade, for they too are essential parts of war economy. It will never be possible to draw a line. The nationalization of the arms business would be only the first step in the nationalization of all industry. Whatever they may profess, its advocates are pleading the cause of communism. Thanks to this specious reasoning, which could equally well be applied to all government measures whatsoever, private enterprise has so far won the day.

One objection to private manufacture has here and there been given serious attention. It consists in pointing out the danger to the country, particularly in war-time, which arises from the immunity of the arms industry from all governmental control. In certain cases, selling arms to foreigners is equivalent to arming the enemy. For it can never be known beforehand just how nations will group themselves in a future conflict, and the countries to which arms have been sold in peace-time may next year be using them against the country of their origin.

But the same kind of sophistry can be used to rebut this argument. Again it is pointed out that a line can never be drawn. Every export tends to strengthen the country importing it. Every machine, every nail, every pound of cotton—all could be regarded as war material in the last resort. Thus the publicity agents of the arms trade are able to show, with apparently faultless logic, that if the export of arms is stopped all international trade must cease with it.

Another argument put forward by the trade is one that was already made use of by Alfred Krupp sixty years ago. In more recent times it has been a favourite argument with American manufacturers. A "national" arms industry cannot flourish if deprived of its exports. The classic discussion on this point was in 1928 when Theodore Burton, head of the American delegation to the League of Nations Conference on the control of the arms trade, suggested in Washington that an embargo should be placed on all export of arms to belligerents.

The expert to whom the matter was referred by the American Government answered that if foreign governments knew that exports would be suspended in war-time, they would refrain from buying any arms from America even in peace-time. And if manufacturers could not export freely in peace-time, their productive power would not be sufficient for American needs in times of danger. It was therefore necessary for national defence that American manufacturers of arms and munitions should be free to export their products to all the world. And that is what they have done, providing with arms and munitions even those countries which might one day threaten the United States.

Nevertheless, in spite of the efficacy of these arguments, public opinion is distinctly sensitive, and when the unscrupulousness of the arms merchants becomes too obvious an outcry is raised. Thus in 1934 the Arms Commission of the Senate provoked a movement in favour of strict control of the industry. The revelations made in Washington had, moreover,

reactions abroad. In Canada, Mackenzie King demanded a similar enquiry for the whole British Empire. A Royal Commission has, of course, been set up in England, but it does not seem very likely that its deliberations will have any definite results.

In the spring of 1935, Swedish public opinion was aroused by the revelations of Sandler, the foreign minister. The latter was able to show that a large part of the Swedish arms industry was in the hands of German groups. A third of the shares of Bofors, the most important Swedish works, were (through an intermediate company) ultimately owned by Krupp's. In accordance with a special law that was passed, these shares had to be sold to Swedish capitalists, and steps were taken to make this sort of thing impossible. But when the government wanted to go further and bring the industry under government control, vigorous opposition was immediately encountered. The tussle resulted in a somewhat mild compromise. A licensing system was to be established in two and a half years. Until then the trade could carry on as it liked. The remarkable thing is that even in a case like this, where it is the government itself which leads the attack, the armament industry is on the whole victorious.

#### *Government Declarations*

The non-pacifist movement against war profits seems to have more chance of success. The principle according to which no one has the right to make money out of war is widely regarded, especially

amongst ex-servicemen, as fundamental, and those who think otherwise refrain from any overt expression of their point of view. One after another the governments of the great democratic countries have in recent years formally declared their adherence to the view that in future war profits ought not to exist.

These declarations have come at a time when the military expenses of every country were being considerably increased, and when all branches of war industry were making substantial profits. This is a paradoxical situation for which as yet no solution is in sight. Nevertheless, it is an important fact that leading statesmen have made larger and more definite promises for the future than have ever been given hitherto.

In France in December 1934 Flandin told the Chamber of Deputies that "there could be no question of any profit whatsoever in war-time for the industries which were working for national defence." This declaration was warmly applauded by the assembly. Moreover, the French Government held the view that it would be dangerous to make a distinction between armament industries and 'pacific' industries, for in time of war many of the latter would rapidly be converted to war production. "No one could tolerate," continued Flandin, "that some should give their lives in the conflict while others retained their money. For its part, the government considers that in war-time there should be no profits for any of the industries mobilized."

Soon afterwards an attempt was made to put this principle into concrete form and incorporate it in

the laws of the country. Fernand Laurent, a deputy belonging to the right wing of the governmental parties, laid a measure before the Chamber prohibiting in war-time all industrial or commercial profits which could be attributed to the war. During hostilities, profits were to be restricted to the average earned during the five preceding years, all sums in excess to be collected by the government and used to repair the destruction caused by war. Another parliamentary attack on war profits was launched in June 1935, during the debate on the military estimates. Neither of these attempts succeeded, however, and, up to the present, no definite measures to abolish future war profits have been actually introduced.

As regards the last war, however, really drastic action has actually been taken, though not until 1933. In the spring of that year a retrospective finance measure was passed with the budget, whose aim was to strike at the war profits of 1914-1918. This drastic measure consisted not of the imposition of a further excess-profits duty, but of the sequestration of all war profits in excess of a certain percentage. Maximum profits were fixed for manufacturers at 10%, and for middlemen at 2%, of the value of goods supplied. All sums in excess were to be handed over to the treasury. It must not be forgotten, however, that the franc has lost four-fifths of its pre-war value, so that the money collected under this law will be much less than if it had been collected at the time.

To secure the necessary information for the law to be put into effect, a commission (*Jury national des marchés de guerre*) was set up to examine all the more

important deliveries of war supplies during the war. The results of their deliberations have not been published, but it would seem that the material they have collected will serve as the basis for legislation on the profits of future wars.

For the last year or two in France a good deal of discussion has centred on the question of restricting even in peace-time the profits of the armament firms. A first step in this direction was taken in July 1935 when Laval was introducing his emergency measures, *décrets-loi*, in the attempt to put the national finances on to a better footing. Amongst the many measures included in the *décrets-loi* was a special 20% tax on all profits realized by the firms engaged on work for national defence.

In May 1935 Baldwin formally declared in the House of Commons that the government was resolutely determined that in the projected expansion of the air force there would be no scope given for profiteering. It is true that this declaration did not cause any sensation on the Stock Exchange where aviation shares, already very high, continued to rise. But it can hardly be doubted that Baldwin, who during the last war surrendered his own war profits to the treasury, would be ready to impose a limit on those of others.

In Italy, where even in peace-time a considerable part of the arms industry is under the financial and political control of the government, the question of war profits has not been publicly examined. On the mobilization against Abyssinia, however, in summer of 1935 Mussolini felt obliged to impose restriction,

though his measures against war profits were more apparent than real. No company was to pay dividends of more than 6% unless it had already done so in the course of the preceding years. Any surplus was to be invested in government stock where it was to remain blocked for three years. Thus, war profits were not really limited at all, though companies were temporarily deprived of the liberty of disposing of them as they liked. The object obviously was not so much to restrict war profits as to prevent the orgy of speculation which occurred in Italy during the last war.

### *The Campaign in America*

It is however in America that the campaign against war profits has been most serious. The strength of this offensive is all the more remarkable in that only a few years ago the least movement in this direction encountered the most energetic resistance from the government.

Under Hoover the atmosphere of Washington began to undergo a change. Hoover had the temerity publicly to stigmatize the destructive and underground work of the American arms manufacturers. But though he was well intentioned, he did not make any great impression on the average American. According to him, the huge sums spent on armaments were among the principal causes of the economic crisis, a thesis that was demonstrably unsound. He did not go so far as to attempt to put into practice the excellent sentiments he expressed. He success-

fully unveiled the machinations of the armament makers and their agents, but did nothing to put an end to them. A commission engaged in studying the political problems of war suggested among other measures the imposition of a 95% tax on war profits, but this was never given serious consideration. In this, as in many other respects, Hoover's bark was worse than his bite.

It was only when Roosevelt came into power that the campaign against war profits emerged from its platonic phase. From the outset Roosevelt made a sharp distinction between the question of American rearmament and that of war profits. The government would authorize armaments as it thought fit. But those who provided them were no longer to fill their pockets as they had done hitherto. Nor were they to count on any supplementary profits of any kind in war-time. The same attitude was taken up concerning the export of arms, and the financing of the arms trade, and other forms of war profits. The watchword was given: "Take the profit out of war," and a very effective watchword it was.

To break with the ideas and traditions of the past, it was necessary that the public should be enlightened on the profits that had been made from the last war and the manœuvres that were on foot to secure further profits of the same kind. It was not a question of bringing to light some particular personal scandal—in America people are accustomed to revelations of that sort—but of making the public aware of the normal operations of war profiteers over the previous twenty years.

The Arms Commission of the Senate, set up in 1934, got to work in the most ruthless manner, showing no fear or favour, and the scope of its investigations went further than that of any previous enquiry. No names were great enough, no organizations powerful enough to intimidate the members of the commission. Nor did they confine themselves to an examination of armament firms, properly speaking, but went into the affairs of all kinds of firms dealing in war supplies. At every turn huge profits were revealed, secret agreements, propaganda devoid of every scruple, and the most revolting attempts at corruption.

The Senate Commission did not even confine itself to enquiry. To strike while the iron was hot it promptly drafted legislation imposing a 100% tax on war profits. Congress voted the measure almost unanimously. But before it could pass into law Roosevelt intervened and summoned a conference of experts to the White House to go into the whole question in all its aspects and draw up the necessary legislation.

This action on the part of the President did not fail to give rise to adverse criticism. It was regarded by many as a flank attack inspired by the armament interests. Nevertheless the names of the experts chosen was evidence of the serious intentions of the government. The preliminary work was confided to a man whose competence on this subject could not be questioned. This was Bernard Baruch, who as we have seen had gained experience in both camps, having been both a war profiteer and an

official controlling war profits. Baruch had already, just after the war, worked out a scheme for industrial mobilization. The plan included a licensing system for armament firms, a scale of maximum prices (this being preferred to fixed prices), and a considerable tax on all excess profits. It will be seen that under this plan war profits are not definitely excluded.

The government, however, wanted the subject to be treated more from a political angle. Professor Charles Warren was called in, a man who had already had a say in Roosevelt's monetary policy. Baruch and Warren elaborated a plan with the object of preventing America's being drawn into any war as a result of her having an economic interest in that war. To this end it was thought necessary to restrict even the trade of a neutral country. The supply of arms or munitions to any belligerent was to be strictly prohibited, no loans were to be made to a belligerent, nor were ships to be placed at the latter's disposal. Moreover American ships entering the zone of hostilities were to enjoy no protection whatever from their government, and passports would not be given to American citizens to enable them to enter the countries at war.

This idea was to throw a cordon round any dangerous area of the world, or, to change the metaphor, to put in quarantine any infected region. War areas were to be closed to American citizens, American ships, American arms, and American money. The growing tension between Italy and Abyssinia during the summer of 1935 accelerated the passage of this measure, but up to the outbreak of

hostilities, the armament firms were able to continue unmolested their trade with Italy, and when hostilities began there was still no law to forbid the supply of raw materials. Copper, steel, cotton, petrol, etc., were shipped to Italy in quantities far exceeding normal requirements. Exhortations from the government asking exporters voluntarily to stop all war shipments were without avail.

In his message to Congress in January 1936, Roosevelt attempted a further step. To assure American neutrality it was not sufficient to put a ban on the export of arms and munitions; it should be extended to all American goods which could help belligerents to continue the war. Following this declaration of principle, legislation was drafted, giving the President discretionary powers to place embargoes on war materials, such as oil, cotton and iron, if exports exceeded normal trade.

This move was at first favourably received both by the public and by Congress. The Arms Commission was then examining Morgan's war dealings and public opinion was aroused. There seemed no doubt that the proposed act would go through quickly. But then a well-directed counter-attack was launched by the interests affected. Certain jurists opposed the measure, maintaining that it would involve such technical difficulties that it would prove inapplicable. Next, trouble arose in the Arms Commission. Senator Nye had made certain accusations against President Wilson which democrats regarded as an election manœuvre, and several influential members of the party refused to vote the money required for

the continuation of the enquiry. Finally, discussions in Geneva on the subject of an oil embargo played into the hands of those hostile to the League of Nations. In the space of a few weeks American opinion had shifted. Legislation was adjourned indefinitely. Congress confined itself to the prolongation to May 1937 of the law already in existence. However, the restrictions thus kept in force are considerable, particularly the ban on credits to belligerents. They are in fact such that American business in any future European war would be very seriously affected.

It must not be forgotten that this campaign against war profits in America has been fought at a time when the country was still suffering severely from trade depression, the number of unemployed being some ten million. Under these conditions, to repudiate profits from war, even if it is a war fought by others, is a courageous act which Europe should admire and respect.

### *The New Conception*

In a great part of the world, ideas, as we have seen, are changing. Governments, parliaments, and the public are agreed that in another war there must be no orgy of profits as in the last. The new idea which is gaining ground is that the State should determine the remuneration which the citizen receives for his war-time services whatever those services may be. Mobilization should include the whole economic organization of the country. The manufacturer

supplying goods to the nation in its hour of need should have no more right to bargain than the soldier. Prices should be fixed for him as the soldier's pay is fixed. If it subsequently appears that prices were fixed at too high a level, so that profits have exceeded the appointed figure, the excess should be returned to the treasury as being the latter's property. A 100% tax on excess profits should hardly be regarded as a tax at all, but rather as a refundment.

This, as we have said, is the new conception. But we should be courting disillusionment if we expected it to be put into practice. Even if governments have more or less proclaimed their adherence to it, we must, nevertheless, be highly sceptical of their ability to enforce it. The whole capitalist structure is based on the desire for gain, and it would not be easy even under the stimulus of war to replace that motive by the patriotic sense of duty.

It is interesting to observe that soldiers are particularly sceptical in this matter. The generals who expect from their men the most unquestioning loyalty, and a readiness for sacrifice that knows no limits, abandon this simple and straightforward outlook as soon as they have to do with business men. As has been shown once more during recent discussions in the United States, they wonder anxiously whether contractors making a profit of 3% would work as conscientiously as if they were earning 6%. In this respect the soldier is less advanced in outlook than the politician. Thus military expediency which gave such scope for profiteering during the last war may yet help to fill many a pocket in the next.

The determination of who is and who is not a war profiteer is another question that raises considerable difficulties. It has already been accepted that no line can be drawn between arms and other war supplies. But can a line be drawn even here? Or must the whole national economy be regarded as a single entity, every part of which is involved? Certainly in war-time many branches of industry that would appear to have no relation to the war have none the less their share of war prosperity. Ought then all profits above normal to be regarded as war profits?

To judge from their declarations the French and English Governments are not prepared to go so far. In America, on the other hand, the view is gaining ground that whoso profits *during* a war profits *from* it.

In America it has even been suggested that in war-time an upper limit should be fixed for all incomes. This idea is not altogether new. In 1800, after Ouvrard's arrest, Bonaparte said to Bourienne, his secretary: "In a period of revolution, no one should possess more than three millions, and that is still too much." In 1935 the American, John J. Flynn, urged that during war individual incomes should not exceed 10,000 dollars, but we may well doubt whether this idea will come any nearer to realization than that of the young Napoleon.

### *The Evolution of War Profits*

But if many of the suggestions put forward for the suppression of war profits end up in the pigeon-holes of official departments, we should none the less be

making a great mistake if we failed to take seriously the efforts that have been made in this direction. For these efforts fall into line with a general tendency which may be traced through the centuries. As we have seen, the forms, the proportions and the political and economic importance of war profits have been continually undergoing changes. As with all historical developments there have been moments of relapse; but the main tendency is always the same.

For thousands of years military profits were far the most important. The riches reaped by war went first of all to the general and in lesser degree to the officers under him, and even sometimes to the common soldier. In fact, it was often the harvest these could hope for that provided the real motive for a war. This form of profit, at once the most primitive and the most brutal, has to-day almost disappeared from view. Except for the relatively insignificant amounts distributed in some countries in the form of gratuities, prize money, etc., military profits may be said to have practically ceased to exist. A general to-day whose aim was to make a personal fortune out of a campaign would earn the contempt of his brother officers, of his troops, and of the entire nation. Yet in ancient times and in the Middle Ages this was pretty much the rule, and down to the eighteenth century it provoked neither astonishment nor indignation.

With the disappearance of this, the simplest and most direct form of war profits, the latter have so to speak taken refuge in finance, industry and trade. The enormous sums of money needed for a modern

war have, however, brought it about that the State itself has entered the financial field, and, as we have seen, become to a considerable extent its own financier. From the middle of the nineteenth century, war profits began to evacuate the field of finance, to form a new line in the armament works and munition factories. Manufacturers of rifles and guns came forward into the front rank of great capitalists. As war material came to play a greater and greater part in modern warfare, a large number of other businesses became involved that were less specialized in war supplies, and between 1914 and 1918 war profits extended to a very large field of trade and industry, and on the whole the more "pacific" trades and industries did better out of the war than the armament firms. Then again, neutrals made more than belligerents.

It thus appears that the centre of gravity, as it were, of war profits has been on the whole, if not altogether regularly, *shifting away from the actual theatre of military operations*. The armament firms are now menaced, and it is doubtful whether they will ever see again the profits they have enjoyed in the past. Looking towards the future, it may fairly safely be predicted that the further one gets from wars, the more profitable they will be. It is not one's own wars that will bring in the profits, but the wars of others. Armaments will realize less war profits than the most innocent of products. Evolution is at work to make war profits more and more indirect, so that Julius Caesar's place is now to be taken by some magnate of the canning trade.

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